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FINANCE & RESOURCES COMMITTEE

12 March 2026

Business (Finance) Review and Update

1.0 PURPOSE OF PAPER

For decision

- 1.1 The purpose of the paper is to provide Committee members with an overview of the financial position as at 31st January 2026 and an update of the year end projected forecast position to the 31st of July 2026.

2.0 EXECUTIVE SUMMARY

- 2.1 The initial budget for 2025-26 was approved by the Board in June 2025. Work has been ongoing across all areas of the College to review the financial forecast position to 31st of July 2026.
- 2.2 The Income and Expenditure to 31st January and the year end forecast is shown in Table 1 and reflects changes following the Quarter 2 budget review meetings. This shows an increase the deficit position of £167k in the Adjusted Operating Position (AOP).
- 2.3 Table 2 details non core grant credit income position.
- 2.4 Table 3 details the progress on the agreed savings targets and additional savings and pressures identified for 2025-26.
- 2.5 The Capital funding and forecasted out turn is Table 4.
- 2.6 The cashflow forecast is shown in the graph 1, showing a key pinch points in August 2026 and January 2027. Discussions are underway with Scottish Funding Council for liquidity assistance.
- 2.7 Appendix 1 shows the Key Performance Indicators for 2025-26.
- 2.8 The figures contained in this report will form the basis of the Mid-Year Return (MYR) to the Scottish Funding Council due by 31 March.

3.0 RECOMMENDATION(S)/ACTION(S) REQUIRED

- 3.1 It is recommended that the Finance & Resources Committee: -
- 3.1.1 Approve the updated Income and Expenditure forecast position to 31 July 2026 shown table 1;
- 3.1.2 Note the Non core grant income forecast position shown in table 2;
- 3.1.3 Note the Capital forecast position in Table 4;

- 3.1.4 Note the Key Performance Indicators in Appendix 1;
- 3.1.5 Note the forecast cashflow projection for the next 12 months as shown in graph 1 and
- 3.1.6 Note that the Quarter 2 budget review/forecast figures will form the basis of the Mid-Year Financial Forecast Return to Scottish Funding Council.

4.0 BACKGROUND

- 4.1 The College sets its budget in June for the following Academic Year. The budget for 2025-26 was approved by the Regional Board on 26 June 2025.
- 4.2 In line with the Financial Procedures Manual, budget review meetings are held with senior managers/budget holders on a regular basis, and always at the end of each quarter. The outcome of these meetings, along with any other relevant information received, is reflected in the updated forecasts.
- 4.3 The College is required to submit a Mid-Year Financial Forecast Return (MYR) to SFC – the Q2 forecast figures in table 5.1.1 below will form the basis of this return. The Scottish funding Council issued the Mid-Year Review (MYR) guidance on the 19th of February which outlined the key financial planning assumptions to be used. The guidance is reflected in the updated quarter 2-year end forecast.
- 4.4 The assumptions set in the MYR guidance included the assumption that additional funding would be received by colleges for the difference between 3% and 4.25% for the Support Staff pay award.

5.0 QUARTER 2 FINANCIAL REVIEW

- 5.1 Financial monitoring meetings have taken place during February with budget holder, reviewing income and expenditure projections to 31 July 2026. The assumptions are based on a freeze of all non-essential spend for the remainder of the year.

5.2 Table 1 below shows the updated forecast position following the Quarter 2 budget review.

Table 1

	2025-26 Approved Initial Budget £	2025-26 - Revised budget £	2025-26 - Q2 Year end Forecast £	Variance from revised budget £	2025-26 Actual to 31 January £
Applied Construction & Engineering					
Expenditure	1,558,922	1,558,922	1,560,684	1,762	829,671
Non Core funding income	(437,385)	(437,385)	(432,385)	5,000	(252,865)
Net Budget	1,121,537	1,121,537	1,128,299	6,762	576,806
Health, Social Care, Early Education,					
Expenditure	2,115,286	2,115,286	2,122,121	6,835	1,029,416
Non Core funding income	(631,608)	(631,608)	(699,608)	(68,000)	(511,894)
Net budget	1,483,678	1,483,678	1,422,513	(61,165)	517,521
Landbased & Rural Skills					
Expenditure	951,204	951,204	958,718	7,514	426,703
Non Core funding income	(119,638)	(119,638)	(119,638)	0	(74,927)
Net budget	831,566	831,566	839,080	7,514	351,776
Creative Enterprise, Technology &					
Expenditure	1,476,692	1,476,692	1,491,734	15,042	737,615
Non Core funding income	(318,208)	(318,208)	(384,208)	(66,000)	(197,259)
Net budget	1,158,484	1,158,484	1,107,526	(50,958)	540,356
Curriculum Support & Projects					
Expenditure	1,229,408	1,229,408	1,229,820	412	552,163
Non Core funding income	(109,325)	(109,325)	(107,325)	2,000	(19,537)
Net budget	1,120,083	1,120,083	1,122,495	2,412	532,625
Other Support Services					
Expenditure	8,812,699	8,812,699	8,777,304	(35,395)	5,022,262
Non Core funding income	(3,368,732)	(3,368,732)	(3,499,552)	(130,819)	(3,185,687)
Net budget	5,443,967	5,443,967	5,277,753	(166,214)	1,836,576
SFC Credit Income	(9,865,679)	(9,865,679)	(9,865,679)	0	(5,524,780)
Income Gap	(437,614)	(437,614)	(343,614)	(94,000)	0
(Surplus)/Deficit	856,021	856,021	1,031,986	167,649	(1,169,120)

5.3 The variances reported from the revised budget are due to the adjustments made to operational budgets for the transfers to the savings target and income gap as detailed in Table 3 below.

5.4 The initial budget approved in June 2025 assumed the generation of non SFC income to the value of £1.8m detailed in **Table 2a** over. Quarter 2 review of these assumptions has identified an income gap of £399k for 2025-26.

Table 2a

Funder	Fund/Purpose	2025-26 Approved Budget Net of Commitments £000's	Actual Grant Income £000's	Variance £000's
Education Contracts	Apprentices via SNIPEF, CITB, SECT & SN	213	213	0
FE & HE Tuition Fees	Full time & Part time Courses	344	362	-18
Skills Development Scotland	Modern Apprentices	467	495	-28
SOSE Start Up	Educational Entrepreneurial Pathway	50	50	0
City Deal	Training & delivery digital courses	43	40	3
City Deal	Training & delivery sustainability courses	74	65	9
Sport Scotland	Active Campus Co-ordinator	40	40	0
Scottish Borders Council LEP	Find Your Vibe	42	42	0
Scottish Borders Council	Schools Academy	55	55	0
Frances Sprot Trust	Breakfast/Lunch club	4	4	0
Interface	Innovation Vouchers	15	10	5
Savings plan	Increased Grant target		0	0
Scottish Borders Council	Shared Prosperity Fund Retrofit - no longer available	220	0	220
Income Gap	anticipated income based on assumptions in budget paper	208	0	208
Total		1,775	1,376	399

5.5 Table 2b below sets out new sources of income identified in the quarter 2 budget review meetings that have partially offset the income gap.

Table 2b

Funder	Fund/Purpose	2025-26 New Grant Funding £000's	Identified Commitments £000's	Net Contribution to bottom line £000's
SOSE Start Up	Educational Entrepreneurial Pathway	30	25	5
Scottish Borders Council	Parental Employability NOLB - cohort 1 and 2	40	6	34
Scottish Borders Council LEP	Towards Transition NOLB	16	3	13
Scottish Borders Council	ESOL with Employability NOLB	25	25	0
Scottish Borders Council	Café to Career Local Employability Partnership	23	20	3
Total Income targets secured		134	79	55
Income Gap Variance (table 1)				
Income target included in budget which there are no known income or grants				399
Total income targets unsecured				344

5.6 Total new grant funding of £134k has been secured together with expenditure plans identified resulting in a total net contribution to the deficit of £55k. This leaves a remaining income gap of £344k to be filled. The gap is reflected in the forecast year end deficit position. Work is ongoing with service managers to support the generation of new commercial income to offset the projected position.

5.7 Table 3 details the saving targets for 2025-26. Quarter 2 review identified the following savings and cost pressures in operational budgets, increasing the Adjusted Operational Position to a deficit of £685k from the £518k approved in the budget setting.

Table 3

	Adjusted Operating Result (Surplus)/Deficit	Adjusted Operating Result (Surplus)/Deficit
	£000's	£000's
Board Report 26/06/2025	881	881
	Agreed Savings Plan Approved Budget	Savings Delivered
	£000's	£000's
Additional Commercial Programmes (income gap)	20	20
Additional non core Grant Funding (income gap)	25	25
Commercial use of estates	6	6
Efficient Use of Resources	65	65
Reduced Shared Service Delivery Costs	66	66
Management Structures	181	181
Total Level 1 Savings	363	363
AOP after Level 1 savings	518	518
Vacancy release from Staffing non recurring		46
Procurement savings recurring		8
Non essential spend savings non recurring		65
Total quarter 2 savings delivered		119
Identified cost pressures		(12)
Income gap in Non Core Funding from Table 2b		(344)
		755
Estimated SFC Funding for Support Staff Payaward		70
Revised MYR projected AOP Deficit/(surplus)		685

Note the additional commercial and non core grant income of £45k was included in the budget setting but not achieved and is included in the income gap in tab 2b.

5.8 The increase in the Adjusted Operating Position is due to amendments made to anticipated non SFC credit income budgets and release of savings from operational expenditure budgets agreed at the Quarter 2 review meetings with budget managers. Staff costs reflect estimated additional funding from the Scottish Government for the support staff pay increase as advised in the SFC planning assumptions guidance. The AOP deficit will be updated in the mid-year financial forecast return.

5.9 Tables 4 below details forecast position of the capital programme to 31 July 2026 and its funding sources.

Table 4 – Capital monitoring 25/26

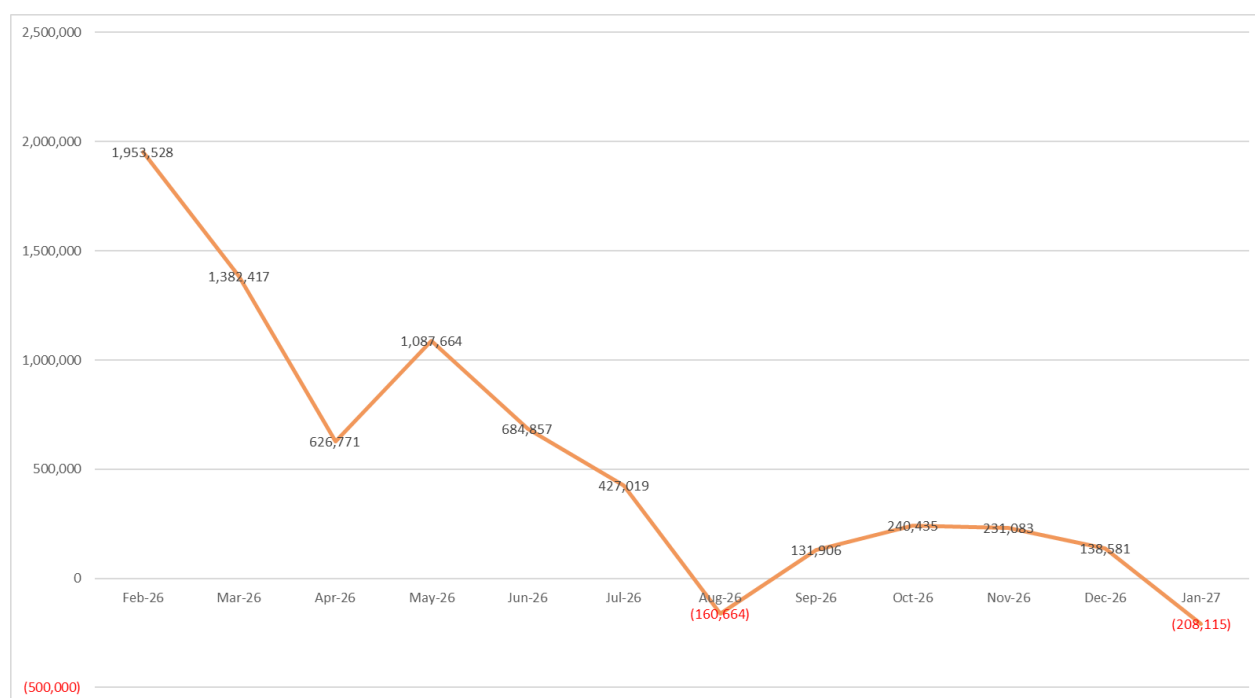
Projects	Spend to to Jan-26 £000's	Forecast to July-26 £000's	Original Budget £000's	Forecast Variance £000's	Funded from 26/27 £000's	Actual Under/over spend £000's
Equipment						
Laptop Refresh Programme	101	101	97	(4)		(4)
Network Refresh	99	99	90	(9)		(9)
Fundamental Mechanics	23	29	29	0		0
Minibuses	89	132	136	4		4
Digital Signage	4	43	43	0		0
Student Funding Module	31	31	32	1		1
Finance for the Future	0	39	109	70	70	
Buildings						
Campus Redevelopment - Main	60	70	97	27		27
Campus Redevelopment - Library	0	116	0	(116)		
Borderlands	23	23	0	(23)		
Contingency	0	3	0	(3)		
Total Expenditure	430	686	633	(53)	70	19
Funded by						
SFC 24/25 Capital Grant B/F		(209)	(209)	0		
SFC 25/26 Core Capital Grant		(424)	(424)	0		
SFC Emergency Unplanned 25/26		(53)		53		
Total Funding		(686)	(633)	53	0	0

- 5.10 Additional capital funding of £53k was secured from SFC from their Emergency/Unplanned works
- 5.11 Table 4 above details a net underspend of £8k across the programme. This net underspend has been reallocated to works required for the redevelopment of the current library space into a student study space.
- 5.12 Due to resource constraints there has been a delay in the progress of the Finance for the Future project. This project will not commence until after 31 July 2026 and will be funded from the 2026/27 capital allocation.
- 5.13 The net underspend, slippage of the Finance project and the release of funds due to the additional income from SFC have all been allocated to a new project for the redevelopment of the current library space into a student study space for the start of the new term. This is required as Heriot Watt will be vacating the library space at the end of June, resulting in no identified study space.

6.0 CASHFLOW

- 6.1 Cashflow monitoring looks at the actual daily cash position, the future cash position and the College's ability to pay both its creditors and staff. The financial review provides information on the projected position, which includes technical accounting adjustments such as accruals and some items such as depreciation which are not actual cash transactions.
- 6.2 Every month the College submits a cashflow forecast to the SFC. The following graph is from the latest cashflow forecast submitted to the SFC on 11th February. The college actual cash balance at 31st January 2026 was £1,953,528. The main transfer of cash from SFC is made on the 15th of each month so the lowest cash position is on the 14th of each month whilst the SFC return only asks for the month end position

Graph 1 – Monthly cashflow 12 months from Feb-26.



- 6.3 This cashflow forecast shows that the College will be overdrawn at the 31st July 26. The College does not have an overdraft facility and is in contact with the SFC to liquidity assistance to allow the College to meet its cashflow obligations. This is a sector wide problem and according to a recent SFC report "four Colleges are forecasting a cash deficit by the end of 2025/26, increasing to 12 colleges by the end of 2027/28". This graph does not include the additional funding for College's announced in the recent Scottish Budget. The College does not yet know how much additional funding it will receive or the split between revenue and capital. However, it is due to be given an indication of this from SFC by the end of March.

7.0 IMPLICATIONS AND CONSIDERATIONS

7.1 Financial Implications

Financial implications are detailed above in the report. This report is the second quarter review for 2025-26. Regular forecasting of the financial position is required to enable informed decisions to be made involving all financial aspects of the College.

7.2 Learner Implications – there are no direct learner implications as a result of the contents of this report. Future financial sustainability of the College may have implications to learners.

7.3 Staff Implications – there are no direct implications as a result of the contents of this report. The longer-term financial stability of the College may have implications on staffing levels.

7.4 Equality and Diversity Implications/Equality Impact Assessment – there are no direct equality implications from the contents of this report.

7.5 Sustainability/Environmental Implications – there are no direct sustainability implications from the contents of this report.

8.0 RISK COMMENTARY

8.1 Due to reducing funding the financial sustainability is a significant risk to the College. Strong financial management and reporting is a key mitigation to ensure the College meets its financial targets.

8.2 Staffing costs reflect approx. 70% of the Colleges overall costs. These are subject to national pay bargaining with pay agreement for Lecturing and Support Staff recently agreed. The funding implications of the pay offer to Support Staff is currently being worked through however it is anticipated that there will be a positive impact due to a commitment from Scottish Government to provide additional funding support.

8.3 As shown in Table 2 the non SFC credit income for the year is £1.8m. This funding is non-recurring. The table highlights that there is a risk that £344k of this target may not be met. Officers across the College are actively looking for additional funding opportunities via partnership working groups and network opportunities.

9.0 CONCLUSION

- 9.1 The forecast Adjusted Operating Position (AOP) following adjustments for non-cash items such as depreciation has increased from £518k to £695k and will be reflected in the Mid- Year Financial Forecast return submitted to Scottish Funding Council in June 2026.

Vivienne Buchan/Gregor Hall, Financial Controller

Previous Board or College Committee Approvals:

Finance & Resources Committee.27 November 2025

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Key Performance Indicators

Appendix 1

			25-26 Approve d Budget	25-26 Forecast	25-26 Actual
Staff Expenditure	<u>staff expenditure</u>	%	64	64	63
	total expenditure				
Non SFC/Credit Income	<u>non-sfc/credit income</u>	%	24	24	29
	total income				
Cash Days	no of days		29	31	23