Agenda

13 October 2016
FINANCE COMMITTEE

Room S1.18, Stirling Campus at 4.30pm
(Refreshments available from 4.00pm.)

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of meetings of 14 June 2016 and 16 August 2016
(Elements of paper 2 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

3. Matters Arising

   a) F/15/031 Budget 2016-17
   b) F/15/031 Budget 2016-17
   c) F/15/033 FRS102 – Accounting Policies

4. Student Association Outturn for 2015-16 and Student Association Budget for 2016-17 — Alan Buchan

5. FRS 102 Accounting Choices and FVC Accounting Policies — Irene Andrew

FOR DISCUSSION

6. Budget Monitoring Report 12 months to 31st July 2016 — Irene Andrew
(Elements of paper 6 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

7. Review of Risk

8. Any other competent business

FOR INFORMATION

Resource Return Outturn 2015/16
Programme of Committee Business

2. Minute of Finance Committee 14 June 2016
For Approval

Boardroom, Falkirk Campus (commencing at 4.30pm)

Present: Mr Liam McCabe (Chair)
Mr Ralph Burns
Mr Andrew Carver

Apologies: Mr Ken Richardson
Ms Caryn Jack

In Attendance: Mrs Alison Stewart, Associate Principal and Executive Director of Finance
Dr Ken Thomson, Principal
Mrs Irene Andrew, Head of Finance
Mr David Allison, Associate Principal and Executive Director Information Services
Mr Stephen Jarvie, Corporate Governance and Planning Officer

F/15/028 Declarations of Interest

The Chair declared an interest owing to the links between the College and University of Stirling in relation to certain degree level courses and under the Scottish Funding Council (SFC) HEI funded activity.

F/15/029 Minutes of Meeting held on 15 March 2016.

The minutes of the meeting held on 15 March 2016 were approved.

F/15/030 Matters Arising

a) F/15/027 Any Other Competent Business

The Associate Principal and Executive Director of Finance updated members on funding for the Student Association. She noted that the intention was to request funding from the Forth Valley College Foundation to support this as this will help to maintain the independence of the Foundation.

A paper covering this has been successfully taken through the Strategic Development Committee and would be presented to the Board for final approval.

The Principal confirmed that although the Student Association is autonomous it is not a separately incorporated body and this approach is in line with NUS guidance for FE colleges.

F/15/031 Budget 2016-17

The Associate Principal and Executive Director of Finance presented a paper outlining the budget for the next academic year.

She highlighted that, while the Grant In Aid allocation appears to have increased, this was to reflect the recent pay awards agreed through National Bargaining and that otherwise the College was in a flat cash position. She also highlighted that Student Support funding and Capital and Maintenance funding levels had been cut.

The Assistant Principal and Executive Director of Finance highlighted that there also had been no additional funding provided to support the College to absorb the additional costs in relation to the removal of the NI rebate and the introduction of the UK government's Apprenticeship Levy.

She discussed the challenges facing commercial activity and highlighted the appointment of a new Development Fundraising Manager to seek alternate sources of funding. Members queried the budgeted net contribution level of [redacted] against the new post and the Associate Principal and Executive Director of Finance confirmed that this target had been reached in consultation with the post holder and the Associate Principal and Executive Director of Business Development and was deemed to be a viable target.

Members requested that the Development Fundraising Manager attend the next Committee meeting to outline her strategy to the Committee.

[redacted]

[redacted]

The Associate Principal and Executive Director of Finance outlined the impact of the cuts to the Capital and Maintenance grant and noted that, while SFC had applied the cut across the sector, owing to the College's current and future estates commitments this had a disproportionate negative effect on the College.

Members noted the list of proposed estates projects and asked for an overview of the selection process which the Associate Principal and Executive Director of Finance provided.

Members noted that, while understanding the necessity for ensuring funding is in place for the new Falkirk campus, it should be borne in mind that current students would not experience the new campus and that the existing campus should be maintained to an acceptable standard so as to deliver a learning and broader student experience of as high as possible in the current situation.

It was also noted that proposed changes to existing campuses should be borne in mind for the design of the new Falkirk campus.

a) Members endorsed the budget and its submissions to the Board with a recommendation for its approval by the Board. It was also agreed that the risks associated with achieving the budget be highlighted to the Board.

F/15/032 Treasury Management Strategy 2016-17

The Associate Principal and Executive Director of Finance presented the annual update to the Treasury Management Strategy as required by the College's Treasury Management policy.

She noted that, owing to the change in status of Colleges, and with that the inability to accumulate cash balances this activity would likely become redundant in the future.

a) Members approved the Treasury Management Strategy for recommendation to the Board of Management and approved the discontinuance of this Strategy for 2017-18 onwards.

F/15/033 FRS102 – Accounting Policies

The Associate Principal and Executive Director of Finance gave a presentation to members on the implications of FRS102, noting that elements of this required the College to choose between options and that the impact of these was not fully known at this time.

She highlighted the perception risk to the College of the implication of FRS102 on with volatility in reported results due to the application of the new standard. The Committee noted that without proper understanding and clear communication the revised financial statements for the College could appear to a lay person, to show College's financial security to be at risk even when if fundamentally that was not the case. This was a particular concern for the College when seeking commercial work as there is often a requirement to prove financial viability via the provision of accounts.

Members queried whether there had been definitive guidance provided by Scottish Funding Council or Colleges Scotland.

The Associate Principal and Executive Director of Finance confirmed that work and training had taken place funded by Colleges Scotland but that it was unlikely that SFC would give a definitive direction would be given as the choice of accounting policy was a matter for the Board to decide. She highlighted that she intended to discuss the College's approach to FRS102 with the newly appointed College external auditors to ensure they were in agreement.

a) Members noted the content of the presentation and agreed that the Associate Principal and Executive Director of Finance should discuss this issue with the external auditors and that this would be brought back to the next meeting of the Committee at which decisions on accounting policies would be finalised. .

F/15/034 Print Re-Tender

The Associate Principal and Executive Director Information Services presented the outcome from the recent tender activity for the appointment of a managed print service provider for the College.

He highlighted that APUC had been extensively involved in the process and outlined the rational for the recommendation to award the contract to Cannon, including projected savings of £86,000 per annum against existing print expenditure.

The Associate Principal and Executive Director Information Services informed members that this was being brought to the Committee for approval to recommend to the Board of Management as the contract value was outwith the Principal's delegated authority levels. The Associate Principal and Executive Director of Finance also highlighted that, under the Financial Memorandum from Scottish Funding Council, the College would also need to seek approval from SFC for any operational lease that exceeds £250,000 over the period of the lease which this did.

Members queried if the College was aware of other organisations who used the recommended supplier.

The Associate Principal and Executive Director Information Systems confirmed that Cannon was used by Glasgow University, Falkirk Council and Fife Council.

a) Members approved the recommendation of Cannon to the Board of Management for approval.

F/15/035 Forecast Outturn 2015/16 (May 2016)

The Associate Principal and Executive Director of Finance presented the latest Forecast Outturn and noted that the underlying operating position of the College had improved since the last forecast presented to the Committee.

She noted that, as with the budget, these figures did not yet have any FRS102 related adjustments in them.

She highlighted that the forecast did not include costs incurred to date in relation to the Arts Venue which is no longer proceeding. She confirmed that the College was currently in discussion with Falkirk Council on this matter.

a) Members noted the content of the report

F/15/036 Review of Risk

Members noted the risks as outlined in the papers.

F/15/037 **Any other competent business**

The Associate Principal and Executive Director of Finance noted that there would be a requirement to hold an additional Finance Committee meeting to approve the financial model for the Falkirk Campus Full Business Case.

Members agreed that 16 August 2016 would be the date for this meeting.

Boardroom, Falkirk Campus (commencing at 5.30pm)

Present:	Mr Liam McCabe (Chair) Mr Ken Richardson Ms Caryn Jack
Apologies:	Mr Andrew Carver
In Attendance:	Mrs Alison Stewart, Associate Principal and Executive Director of Finance Mr Stephen Jarvie, Corporate Governance and Planning Officer Dr Ken Thomson, Principal Mr Kieran McCallum, QMPF

F/16/001 Full Business Case for Forth Valley College – New Falkirk Campus – Financial Case

The Associate Principal and Executive Director of Finance outlined the key assumptions that underline the case for the financial affordability of the new campus.

These are –

- SFC providing capital grant funding up to £ 70 million
- Retaining the receipts from the sale of Alloa Branshill site and existing Falkirk campus site
- SFC advancing the receipt of Falkirk sale in 2019/20 to support the development costs, with the view this would be repaid in the same fiscal year
- Receipt of £5m funding from the Forth Valley College Foundation
- Additional SFC support of £1.1m
- Use net depreciation of £400k per annum 2016/17 – 2019/20
- SFC funding for 50% lifecycle maintenance costs

She noted that these assumptions had all been discussed with SFC during the preparation phase of the FBC and while no approval had been given no concerns were raised by SFC.

She outlined the risks associated with the assumptions. For land receipts the risk is that the land in Alloa and Falkirk would not generate the level of funding anticipated. This risk was deemed to be low as the FBC had been deliberately prudent in terms of the level of receipt anticipated. She also outlined the additional risk in relation to the sale of the Falkirk campus arising from the telecommunications masts on the existing Falkirk campus which are contracted to a third party with the contract not due to expire until 2023.

Board member Ken Richardson, who is the chair of the Project Board for this development noted that the Falkirk Campus Project Board were aware of this issue and were looking at remedies for this.

There was a full discussion of the financial case focussing on the certainty of the project funding streams, the financial impact of undertaking the project on the College's financial sustainability and the associated risks of both of these critical issues.

Members queried whether the Foundation had committed to providing the anticipated level of funding. The Associate Principal and Executive Director of Finance confirmed that, while the official request had yet to be submitted, she and the Principal had met with the Foundation chair to discuss the College's intentions. She also highlighted that the Foundation had previously approved £1.8m towards design costs, of which approx. £600k had been claimed to date. Moreover, while as a separate legal entity the donation from the ALF could not be taken for granted this did align with the Foundation's primary purpose.

Members queried whether this level of funding would leave enough funding in the Foundation for other projects including the Foundation's support for the Student Association. The Principal confirmed that it would leave £500k in the Foundation to fund the Student Association and other projects the Board of the Foundation deemed appropriate.

Members raised concerns regarding the financial projections in the FBC and appendices, noting that there were not large margins built in to absorb extraordinary costs or adverse fluctuations in the College's financial position. The Associate Principal and Executive Director of Finance informed members that the projections were accurate as the College has to reach a break even position. She confirmed that, in the event of an extraordinary event, the College would approach SFC for additional funding to mitigate the impact. The change in status of the College under ONS meant that it could not accumulate a reserve to cushion against financial shocks and it was expected to operate at a break-even position. Thus it would need to revert to SFC in the event of an adverse financial event.

Members queried whether, in an event such as the recent news story about the contractor for the new local Maggies centre going into administration, the College would be able to absorb a similar incident in the Falkirk campus build. Kieran McCallum, QMPF, noted that this risk would be mitigated through the procurement process and the selection of a robust main contractor. The procurement activity would be conducted by AECOM with assistance from APUC and long term financial viability of contractors would form part of the PQQ process.

Members queried the impact of FRS102 on the reporting of finances on an ongoing basis. The Associate Principal and Executive Director of Finance confirmed that this was being examined at the moment and outlined the potential impacts on the College accounts. This would be reported on to the Finance Committee under the normal course of business. The accounting treatment, it was agreed, should not be a barrier to proceeding.

Members queried whether the College had been in contact with Barclays and the impact on the covenants on the existing College debt. The Associate Principal and Executive Director of Finance confirmed that Barclays had been informed and noted that the College is still pursuing removal of the covenants owing to the current legal status of FE in Scotland meaning covenants are no longer required. The Associate Principal and Executive Director Finance also highlighted that permission to sell the Falkirk Site would be required from Barclays in line with the conditions of the current loan facility.

a) Members endorsed the financial case as contained within the FBC for it to proceed to the Board for approval as part of the overall project with the following caveats–

- Ensure the FBC covering paper for the Board fully outlines the assumptions, associated risks and proposed mitigating actions to allow members to make an informed decision. The cover paper should also refer to the need to reach a break even point each year for the College.
- That the College, when submitting the FBC to SFC, clearly set out in a covering letter what funding the College is asking SFC to commit to this project
- That the College obtain a letter of commitment from the Foundation for their contribution

4. Student Association Outturn for 2015-2016 and Student Association Budget for 2016-2017 For Approval

13 October 2016
FINANCE COMMITTEE

1. **Purpose**

   To present the Student Association Outturn for August 2015 to July 2016 and the Budget for August 2016 to July 2017.

2. **Recommendation**

   Contents of this report be reviewed and approved.

3. **2015-2016 Outturn**

   2015-2016 has seen the Student Association hold a Freshers' and Re-Freshers' fair, volunteer events, employability events and healthy body healthy mind events. The Student Association were winners of the "Enterprise Award Category" at the Scottish NUS awards in recognition of the College Credit Union facility. The Student Association was also highly commended for their LGBT work in the "Diversity Award Category" at UK NUS awards.

   Appendix 1 shows the Student Association Outturn for Academic Year 2015-16 of £6k.

   The SPARQS Funding continued into 2015-16 but only covered Salary Costs until March 2016, the College took the decision to fund the remaining actual salary costs for April to July 2016. Student Association Salaries are showing a saving of £7k and there is also a reduction in Grant Income of £3k that offset each other. This is due to the Student Association Officers securing secondments within the College towards the end of the academic year.

   There was a reduction in Miscellaneous Income of £4k, this was due to not securing the funding from Barclays to continue running the preparation for employment workshops.

   During 2015-16 the Student Association funded an International Trip to Croatia in order to tie in with the Colleges International Strategy and create more opportunities for FVC students. The conference included the themes of: Excellence, Leadership, Creativity and Innovation. The Student Association also made savings within Materials, Travel and Miscellaneous Expenditure.

4. **2016-2017 Budget**

   The Student Association will apply for a grant of £74k from Forth Valley College Foundation to fund the salaries for the Student Association this Academic Year 2016-17.

   A grant of £18k will be provided by the College to fund operational costs. There is a budget of £3.7k for team development at conferences and training courses and £6k has been budgeted for spend on Fresher and Refresh Fayres.

   The Student Association decided in August 2016 that Mobile Phones previously used by the team are no longer required and have passed the Phones back to IT. The IT equipment budget has been reduced to reflect this.

The forecast for academic year 2016-17 shows a breakeven position, however a surplus from 2015-16 of £6k will carry forward in academic year 2016-17.

5. Financial Implications

There is no financial implication, as long as the Student Association stays within Budget. This will be monitored monthly to ensure there is no overspend.

6. Equalities

Assessment in Place? – Yes ☐ No ☐ Non-Applicable ☒

7. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		
Medium	x	x
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions:

Risk Owner – Andrew Lawson **Action Owner –** Alan Buchan

8. **Other Implications –** NA

Communications – Yes ☐ No ☒ Health and Safety – Yes ☐ No ☒

Paper Author – Alan Buchan/Lisa Penman **SMT Owner –** Andrew Lawson

4. Student Association Outturn for 2015-2016 and Student Association Budget for 2016-2017 For Approval

13 October 2016
FINANCE COMMITTEE

Appendix One

Forth Valley College Student Association

		2015-16 Budget	2015-16 Actual	Variance	2016-17 Budget
SUIN0001	Grant Income	17,630	14,264	(3,366)	18,000
SUIN0003	Miscellaneous Income	4,000	95	(3,905)	0
SUIN0004	Entertainment Income	1,000	1,120	120	1,000
SUIN0005	NUS Income	350	420	70	300
SUIN0007	Fundraising	0	362	362	0
SUIN0008	Grant from the Forth Valley College Foundation	0	0	0	74,177
SUSP0001	SPARQS Funding	71,000	71,000	0	0
Student Union Income		**93,980**	**87,262**	**(6,718)**	**93,477**
SUEX0001	Conferences and Courses	3,500	6,864	(3,364)	3,739
SUEX0002	Entertainment Functions	5,000	5,875	(875)	6,000
SUEX0004	Materials	2,000	3,255	(1,255)	4,000
SUEX0005	Membership Fees	2,300	2,265	35	2,500
SUEX0006	Miscellaneous Expenditure	1,614	2,611	(997)	1,500
SUEX0007	Salaries	91,789	85,183	6,606	74,177
SUEX0008	Travel Costs	1,500	872	628	1,000
SUEX0009	Class Rep Incentives	500	452	48	500
SUEX0010	Marketing	0	0	0	0
SUEX0011	IT Equipment	1,000	676	324	61
SUEX0013	Fundraising	0	327	(327)	0
Student Union Expenditure		**109,203**	**108,382**	**821**	**93,477**
Academic Year Surplus/(Deficit)		**(15,223)**	**(21,120)**	**(5,897)**	**0**

Previous Year Surplus

	2015-16 Budget	2015-16 Actual	Variance	2016-17 Budget
Previous Year Surplus	23,115	23,115	0	6,103
SPARQS Carry Forward	4,108	4,108	0	0
Total Previous Year Surplus	**27,223**	**27,223**	**0**	**6,103**
Overall Surplus/(Deficit)	**12,000**	**6,103**		**6,103**

5. FRS 102 Accounting Choices and FVC Accounting Policies For Approval

13 OCTOBER 2016
FINANCE COMMITTEE

1. Purpose

To provide the Finance Committee with an overview of the implications of FRS 102 for Forth Valley College. The paper provides a summary of accounting policy choices available, along with recommendations.

2. Recommendation

That members consider the options and approve the recommended FRS 102 accounting treatment where choices are available and approve the College's Accounting Policies as noted at Appendix C for 2015/16 and 2016/17.

3. Background

The College is required to comply with the revised Financial Reporting Standard FRS 102 for the 2015/16 annual accounts while complying with the FEHE Statement of Recommended Practice (SORP), and the Financial Reporting Manual (FReM). The revised SORP (FEHE SORP 2015) is detailed and technical with many changes and factors to be considered. The SORP is non-prescriptive, allows for accounting policy choices and requires formal approval of all Accounting Policies.

4. Key Considerations

FRS 102 will apply to this financial year ending 31 July 2016. Both the opening Balance Sheet as at 1 April 2014 and the comparative Balance Sheet as at 31 July 2015 will require to be restated as if FRS 102 had always been in place in order to provide a meaningful comparative upon publication.

Changes within SORP 2015 already in place due to ONS reclassification

As committee members are aware following reclassification, Arm's Length Central Government Bodies Colleges were required to comply with the Governments Financial Reporting Manual (FReM).

As a result, some of the changes required by the 2015 SORP have already been implemented as part of the 31 July 2015 accounts which are as follows:

Employment benefits – the new SORP requires that untaken leave be recorded as a liability at balance sheet date. AS per the FReM, the change was made as part of the July 2015 financial statements and it is not anticipated that the liability will change materially year-on-year. No accounting policy adjustment or restatement is required for compliance with the 2015 SORP.

Land and Buildings - As with current UK GAAP, FRS 102 allows classes of assets to be measured at cost or revaluation. However the FReM requires Fair Value which is normally Market Value. Following advice from the College's valuers, Depreciated Replacement Cost has been used for the College's land and buildings (specialised assets), with the exception of the land at Branshill, Alloa and the Middlefield site which are valued on the basis of Open Market Value.

In line with the FReM, the College has a policy of ensuring a full revaluation takes place every 5 years, along with a supplementary valuation in year 3, such that the fair value is not materially different to the current value. Depreciation and impairment losses are subsequently charged on the revalued amount.

Since the college is already complying with the FReM, no accounting policy adjustment or restatement is required.

Impact of 2015 SORP for 2015/16 accounts

The following provides a summary of the review completed and the impacts of the 2015 SORP on Forth Valley College accounting policies and subsequent restatements required.

Income Recognition

Trading Income – there is no change on how we account for trading income. Income from the sale of goods and services are credited to income when the goods or services are supplied or the terms of the contract have been satisfied. This covers exchange transactions for example tuition fees.

- Accounting Policy – no change
- Adjustments/restatement – none as is consistent with current treatment

Government Grants for Revenue and Capital – under the 2015 SORP two models of accounting treatment are detailed for government grants being the accruals or performance models.

The College can choose an approach for each of the capital and revenue government grants but all grants for land must be treated as performance.

Revenue Grants - under the accruals model government revenue grants including the recurrent teaching grants from SFC will continue as is and be recognised as income over the periods in which the College recognises the related costs for which the grant is intended to compensate.

- Accounting Policy – we proposed the accrual model be selected for the accounting policy therefore no change
- Adjustments/restatement – none as is consistent with current treatment

Capital Grants – under the old SORP capital government grants given to the College to support any fixed asset purchases or construction are permitted to be accounted for as deferred reserves on the balance sheet within reserves. The income is then released to the income and expenditure account in line with the depreciation charge of the respective fixed asset, in essence offsetting the depreciation charge within the income and expenditure account.

As noted above under the 2015 SORP there is a choice of two accounting policies:

Accruals Model – in essence the same as the existing model however is only permitted for government grants for non-land purchases. Also the deferred element of the capital grant must be retained within creditors as a deferred income rather than a reserve.

Performance Model – under this model grants must be recognised within the income in full immediately when the performance conditions of the grant are met.

The use of the performance model would result in more volatile surpluses and deficits. Future Statements of Comprehensive Income would no longer benefit from the credit arising from the release of deferred capital grants which would reduce on-going reported surpluses.

At this stage the College has the option to apply the accruals model for all government funded non-land capital grants and the performance model for all land grants.

We recommend to committee members to remain with the accruals model for government capital grants for the following reasons:

- While this will mean a mix of accounting policies for non-government and government land grants received, there are currently no non-government grants for Forth Valley College
- The impact the performance model will have on the net depreciation figure and the current uncertainty around this cash
- While there is a possibility the SORP will in the future remove the accruals model as yet we have no indication when this will be
- This is the approach of the majority of other Colleges so would provide consistency and comparability of financial information for the SFC.

The College will however have to ensure a process is in place to assess each grant received and treat accordingly depending on the source and purpose of the grant.

- Accounting Policy – we proposed the accrual model be selected for the accounting policy
- Adjustments/restatement – reclassification of deferred capital grants on the balance sheet as deferred income within creditors rather than part of the reserves. This will result in a drop in net asset position as the £34.5m deferred capital grants move from reserves to creditors. This significantly reduces the reserves for Forth Valley College however in order to provide sufficient assurance over the College's future funding position a note has been included in the annual report stating that the accounts have been prepared on the going concern basis as there is sufficient assurance over the funding which has been agreed in principle over the medium term period. We have also noted that any significant net liabilities in the future would be financed from grant-in-aid.

The College currently has a loan covenant tied to the net asset value of the College and discussions are on-going with Barclays Bank regarding the impact of this change. Barclays are currently reviewing the covenant with the view to removing this following the ONS reclassification.

Financial Derivatives

The College has a bank loan which under the 2015 SORP requires to be recognised at amortised cost which is consistent with the current treatment for the loan.

However the college uses an interest rate swap to adjust interest rate exposure in order to guarantee fixed interest payments for the bank loan where payments are variable and hence exposed to interest rate movements.

Interest rate swaps are recorded on the balance sheet at fair value and accounted for at fair value through profit and loss. Under previous UK GAAP these were not re-valued to fair value or shown on the college balance sheet at the year end. Net interest payable is accrued.

- Accounting Policy – we propose to include a note as to the treatment of a derivative
- Adjustments/restatement – we now require to account for the swap as an asset or liability on the balance sheet and movement in the fair value of the swap will be reflected year on year within the Statement of Comprehensive Income. We have requested swap valuations as at April 2014, July 2015 and July 2016.

Lease Arrangements

The 2015 SORP requires lease classification based on a “risk and rewards incidental to ownership” approach. Accordingly a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases.

- Accounting Policy – we have reviewed all leases and none have been identified as a finance lease therefore no change
- Adjustments/restatement – none as is consistent with current treatment

Embedded Leases

Under the 2015 SORP an embedded lease may exist within a contract where the agreements transfer the right to use assets even although substantial services by the lessor may be called for in connection with the operation or maintenance of such assets.

- Accounting Policy – we have reviewed all contracts and none have concluded that there are no material embedded lease therefore no change
- Adjustments/restatement – none as is consistent with current treatment

The College will develop a process to capture new contracts which contain embedded leases at contract negotiation.

Pension Obligations

The College has two main pension schemes where it has active employees, the Scottish Teachers Superannuation Scheme (STSS) and the Falkirk Pension Fund (LGPS).

The liability relating to the LGPS are recognised on the College's balance sheet at present. FRS 102 contains a slight change in that the net interest expense (or income) is based upon the net deficit/surplus within the scheme. This differs to current UK GAAP where the interest is equal to the difference between unwinding the discount on scheme liabilities and the expected return on assets.

STSS is a multi-employer defined benefit scheme accounted for as defined contribution schemes. This is because unfunded multi-employer schemes do not give rise to contractual obligations and any notional deficit is funded on a "pay as you go" basis.

- Accounting Policy – the accounting treatment for both schemes is similar under FRS 102 as for current GAAP therefore we have not adjusted our accounting policy notes
- Adjustments/restatement – we have requested pension valuations as at April 2014 and July 2015 as a result of the slight calculation change noted above, the movement of which will be reflected within the Statement of Comprehensive Income. However there is no change to the value of the assets and liabilities at both dates therefore no changes required to the balance sheet.

First Time Adoption Disclosures and Preparation

As part of the notes within the year-end financial statements at 31 July 2016 the following first time disclosures will be required:

- A description of the change in each accounting policy – which will be based on the details above
- Reconciliation of net assets under UK GAAP to FRS 102 at date of transition (1st April 2014) and the comparative period i.e. 31 July 2015
- Reconciliation of the income statement under UK GAAP to FRS 102 for the comparative period i.e. 31 July 2015.

5. Recommendation

Accounting Policy Choices – from the review completed above we have concluded that there is one accounting policy choice to be made which is the treatment of Capital Government Grants

As detailed above it is recommended to committee members that we remain with the accruals model for the treatment of Government Grants.

Accounting Policies for Financial Statements as at 31 July 2016 – following the above review the accounting policies have been amended to reflect the appropriate accounting treatment under the 2015 SORP. Attached at Appendix C is the proposed accounting policies for the year end 31 July 2016.

Committee members are requested to agree the proposed accounting policies for the year end 31 July 2016.

6. Next Steps

Following the above review we have now completed the restatement of the transition balance sheet and the 31 July 2015 comparatives to reflect the change to the treatment of government grants only. This will be updated once the swap valuations have been obtained. These will be forwarded to Henderson Loggie for review prior to the year-end audit work. The results of this will be shared with the committee at the December meeting.

Work is on-going to ensure the new format of the financial statements will be in place for the 31 July 2016 accounts.

7. Equalities

Assessment in Place? – Yes ☐ No ☒

Not applicable given the content of this paper.

8. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High	X	X
Medium		
Low		
Very Low		

Failure to comply with FRS102 would lead to potentially qualified accounts.

Whichever method of recognising income is selected for the treatment of government grants this will either weaken the Statement of Financial Position (Balance Sheet) which would likely lead to a negative position within a couple of years or distort the College's operational surpluses on an on-going basis.

Advice was sought from both the College's existing (Henderson Loggie) and new (Ernst & Young) external auditors.

Risk Owner – Alison Stewart **Action Owner –** Irene Andrew

9. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ **No** ☒ **Health and Safety – Yes** ☐ **No** ☒

Paper Author – Irene Andrew **SMT Owner –** Alison Stewart

Appendix A

Accounting Choices	Choice	Accruals Model	Performance Model
Exchange Transactions e.g. tuition fees	No	X	
Non Exchange Transactions			
- Government Grants			
- Land	No		X
- Other	Yes	X	X
- Revenue	Yes	X	X

ACCRUALS MODEL:	PERFORMANCE MODEL:
Income recognised to match expenditure incurred	Income recognised in the SOCI on entitlement, therefore potential more volatile surplus / (deficits).
Income received in advance recorded as a creditor (deferred income) until the grant is spent.	Income received in advance held within restricted reserves
Creditors are liabilities, therefore a reduction in net assets on the SOFP, **weakens SOFP**	Restricted reserves, are reported below the line, **SOFP remains strong**
Income recognised over the expected useful life of the asset therefore matched to the annual depreciation charge	A potential mis-match with future depreciation charges incurred.
No change to current systems & processes	Systems & processes will require amendments
Easier to understand and communicate	More difficult to explain

Appendix B (i)

Impact of the new SORP on the Statement of Comprehensive Income (SOCI) - Accruals Basis

for the year ended 31 July 2015

DRAFT / INDICATIVE FIGURES

	Notes to Accounts	OLD SORP (2007)	Effect of transition to FRS 102 / New SORP (2015)	Restated 2014-15 Financial Statements
			***NO** ACCOUNTING POLICY CHOICE*	NEW SORP (2015)
		Original 2014-15 Financial Statements (16 mths)	**Impact of Deferred Capital Grants - NON Government**	
			PERFORMANCE MODEL	*ACCRUAL MODEL*
		£'000	**£'000**	**£'000**
Income				
Scottish Funding council grants	2	31,522		31,522
Tuition fees and education contracts	3	9,926		9,926
Other grant income	4	97		97
Other operating income	5	1,849		1,849
Investment income	6	26		26
Total income before other grants and donations		43,420	0	43,420
Donations and other grant income		0		0
Total income		43,420	0	43,420
Expenditure				
Staff costs	7	28,925		28,925
Pension provision charge	9	1,702		1,702
Other operating expenses	10	10,185		10,185
Depreciation	14	3,542		3,542
Interest payable	11	224		224
Donation to FVC Foundation	12	1,100		1,100
Total expenditure		45,678	0	45,678
Surplus / (deficit) before tax & exceptional items		**(2,258)**	**0**	**(2,258)**
Exceptional items				
Loss on Revaluation of Land		(615)		(615)
Surplus / /(deficit) after tax		(2,873)	0	(2,873)
Surplus for the year		***(2,873)***	***0***	***(2,873)***

Notes

No adjustments included above for holiday pay or revaluation of fixed assets as the provisions are already reflected within the 2014/15 financial statements

Adjustment still required for the slight change in pension calculation

Appendix B (ii)

Impact of the new SORP on the Statement of Comprehensive Income (SOCI) - Performance Basis

for the year ended 31 July 2015
DRAFT / INDICATIVE FIGURES

	Notes to Accounts	OLD SORP (2007)	Effect of transition to FRS 102 / New SORP (2015)				Restated 2014-15 Financial Statements
			NO ACCOUNTING POLICY CHOICE	*ACCOUNTING POLICY CHOICE*			NEW SORP (2015)
		Original 2014-15 Financial Statements (16 mths)	**Impact of Deferred Capital Grants - NON Government**	**Impact of Deferred Capital Grants - Government**			
			PERFORMANCE MODEL	*PERFORMANCE MODEL*			*PERFORMANCE MODEL*
				SFC Grant received	SFC Grant Released	Non SFC Grant	
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income							
Scottish Funding council grants	2	31,522		638	(2,712)		29,448
Tuition fees and education contracts	3	9,926					9,926
Other grant income	4	97					97
Other operating income	5	1,849					1,849
Investment income	6	26					26
Total income before other grants and donations		43,420	0	638	(2,712)	**0**	41,346
Donations and other grant income		0					0
Total income		43,420	0	638	(2,712)	0	41,346
Expenditure							
Staff costs	7	28,925					28,925
Pension provision charge	9	1,702					1,702
Other operating expenses	10	10,185					10,185
Depreciation	14	3,542					3,542
Interest payable	11	224					224
Donation to FVC Foundation	12	1,100					1,100
Total expenditure		45,678	0	0			45,678
Surplus / (deficit) before tax & exceptional items		**(2,258)**	**0**	**638**	**(2,712)**	**0**	**(4,332)**
Exceptional items							
Loss on Revaluation of Land		(615)					(615)
Surplus / /(deficit) after tax		(2,873)	0	638	(2,712)	0	(4,947)
Surplus for the year		***(2,873)***	***0***	***638***	***(2,712)***	***0***	***(4,947)***

Notes
No adjustments included above for holiday pay or revaluation of fixed assets as the provisions are already reflected within the 2014/15 financial statements
Adjustment still required for the slight change in pension calculation

Appendix B (iii)

Impact of the new SORP on the Consolidated Statement of Financial Position - Accruals Basis

DRAFT / INDICATIVE FIGURES

	Notes to Accounts	Opening Balance at 1 April 2014	Effect of transition to FRS 102 / New HE SORP (2015)		Applying Accruals Model for Capital Grants: Opening Balance at 1 April 2014 Restated	Movement in year 2014-15		Closing Balance at 31/7/15
		OLD SORP (2007)	***NO*** *ACCOUNTING POLICY CHOICE*	*ACCOUNTING POLICY CHOICE*	NEW SORP (2015)	No Accounting changes - as per 2014-15 Financial Statements	Impact of DCG's under new regime - SFC Grant	NEW SORP
		As per 2013-14 Published Accounts	**Impact of Non-exchange / Non-Government income** *PERFORMANCE MODEL*	**Impact of Deferred Capital Grants** *ACCRUAL MODEL*				
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non - current assets								
Fixed Assets	14	**63,713**			63,713	(2,619)		61,094
Current Assets								
Stocks		**33**			33	(6)		27
Trade & other receivables (previously debtors)	15	**3,192**			3,192	(1,783)		1,409
Cash and cash equivalents		**786**			786	823		1,609
		4,011	**0**	**0**	**4,011**	(966)	0	**3,045**
Creditors: Amounts falling due within one year	16	**(4,128)**		(2,511)	(6,639)	1,293	963	(6,010)
Net current (liabilities)/assets		**(117)**	**0**	**(2,511)**	**(2,628)**	327	963	**(2,965)**
Total Assets less Current Liabilities		**63,596**	**0**	**(2,511)**	**61,085**	(2,292)	963	**58,129**
Creditors: Amounts falling due after more than one year	17	**(4,432)**		(32,027)	(36,459)	216	1,112	(33,504)
Provisions								
Pensions Provisions	18	**(7,536)**			(7,536)	(1,162)		(8,698)
Pension Liability	27	**(10,202)**			(10,202)	(3,315)		(13,517)
Total Net Assets		**41,426**	**0**	**(34,537)**	**6,889**	(6,553)	2,075	**2,411**
	Note	**£'000**						
Deferred Capital Grants	19	**34,537**		(34,537)	0	(2,075)	2,075	0
Restricted Reserves								
Income and expenditure reserve -excl pension reserve	20	(3,477)			(3,477)	(1,310)		(4,787)
Pension reserve	20	(10,202)			(10,202)	(3,315)		(13,517)
Unrestricted Reserves								
Income and expenditure reserve - unrestricted reserve					0			0
Revaluation reserve	20	**20,568**			20,568	147		20,715
Total reserves		**41,426**	**0**	**(34,537)**	**6,889**	(6,553)	2,075	**2,411**

Appendix B (iv)

Impact of the new SORP on the Consolidated Statement of Financial Position - Performance Basis

DRAFT / INDICATIVE FIGURES					Applying Performance Model for Capital Grants			
		Opening Balance at 1 April 2014	Effect of transition to FRS 102 / New HE SORP (2015)		Opening Balance at 1 April 2014 Restated	Movement in year 2014-15		Closing Balance at 31/7/15
	Notes to Accounts	OLD SORP (2007)	*NO ACCOUNTING POLICY CHOICE*	*ACCOUNTING POLICY CHOICE*	NEW SORP (2015)	No Accounting changes - as per 2014-15 Financial Statements	Impact of DCG's under new regime	NEW SORP
		As per 2013-14 Published Accounts	Impact of Non-exchange / Non-Government income *PERFORMANCE MODEL*	Impact of Deferred Capital Grants *PERFORMANCE MODEL*				
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non - current assets								
Fixed Assets	14	**63,713**			63,713	(2,619)		61,094
Current Assets								
Stocks		**33**			33	(6)		27
Trade & other receivables (previously debtors)	15	**3,192**			3,192	(1,783)		1,409
Cash and cash equivalents		**786**			786	823		1,609
		4,011	**0**	**0**	**4,011**	(966)	0	**3,045**
Creditors: Amounts falling due within one year	16	**(4,128)**			(4,128)	1,293		(2,835)
Net current (liabilities)/assets		**(117)**	**0**	**0**	**(117)**	327	0	**210**
Total Assets less Current Liabilities		**63,596**	**0**	**0**	**63,596**	(2,292)		**61,304**
Creditors: Amounts falling due after more than one year	17	**(4,432)**			(4,432)	216		(4,216)
Provisions								
Pensions Provisions	18	**(7,536)**			(7,536)	(1,162)		(8,698)
Pension Liability	27	**(10,202)**			(10,202)	(3,315)		(13,517)
Total Net Assets		**41,426**	**0**	**0**	**41,426**	(6,553)	0	**34,873**
	Note	**£'000**						
Deferred Capital Grants	19	**34,537**		(34,537)	34,537	0	(34,537)	0
Restricted Reserves								
Income and expenditure reserve -excl pension reserve	20	(3,477)			(3,477)	(3,385)		(6,862)
Pension reserve	20	(10,202)			(10,202)	(3,315)		(13,517)
Unrestricted Reserves								
Income and expenditure reserve - unrestricted reserve				34,537	0		34,537	34,537
Revaluation reserve	20	**20,568**			20,568	147		20,715
Total reserves		**41,426**	**0**	**0**	**41,426**	(6,553)	0	**34,873**

Appendix C

Statement of Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2015: 'Accounting for Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2015-16 Government Financial Reporting Model (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets.

The financial statements do not include the income and expenditure of the Students' Union as the College does not exert control or dominant influence over policy decisions.

Recognition of income

Income

Income from grants, contracts and other services rendered is included in proportion to the extent of completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Scottish Funding Council (SFC) are recognised in the period in which they are receivable.

Grant Funding

Government revenue grants including Funding Council block grants are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital Grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

Tangible fixed assets

In line with FReM all tangible assets must be carried at fair value.

Land and Buildings

Land and buildings are measured using the revaluation model and accordingly, assets are revalued to fair value. Where appropriate Depreciated Replacement cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The land at Branshill, Alloa and the Middlefield site has been valued on the basis of Open Market value (still need to agree the valuation basis for Middlefield valuation given FBC may be approved soon).

The College has a policy of ensuring a full revaluation takes place at least every 5 years such that the fair value is not materially different to the current value. In line with the FReM this will be supplemented by an interim professional valuation in year 3.

Depreciation and impairment losses are subsequently charged on the revalued amount.
Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the College.

If a building is brought into use mid-way through a year the depreciation charge in the first year will be pro-rated to reflect the number of months that the asset was in use.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2016 and are not depreciated until they are brought into use.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives.

The expected useful life of buildings can vary from 20 to 50 years as determined by professional opinion and valuation.

Equipment
Equipment costing less than £10,000 per individual item or grouped items is written off to the Statement of Comprehensive Income and expenditure account in the year of acquisition. All other equipment and vehicles are capitalised and depreciated in accordance with the depreciation policy.

Depreciation
Depreciation is provided to write off the cost or valuation of tangible fixed assets on a straight-line basis over the expected useful lives of the assets. New build campuses at Alloa and Stirling are depreciated using a component accounting approach.

i) Buildings	20 - 50 years
ii) Plant & Equipment	5 years
iii) Building improvements	10 years
iv) IT Equipment	4 years
v) Motor vehicles	7 years
vi) Equipment acquired for other projects	project life
vii) Specialist Equipment acquired for Oil and Gas teaching	10 years

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Leased assets

Finance Leases
Leases in which the College assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. Assets held under finance leases are depreciated over their useful life.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The lease rentals are treated as consisting of capital and interest. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the Statement of Comprehensive Income in proportion to the reducing capital element outstanding.

Operating Leases
Leases not meeting the criteria of a finance lease are treated as an operating lease. Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from the revaluation reserve to the Statement of Comprehensive Income together with any surplus or deficit on disposal.

Detail if valuation method for specific sites to be included within the note

Stocks

Stock is held at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Cash and cash equivalents

Cash and cash equivalents include sums on short-term deposits with recognised banks, building societies and government securities.

Taxation

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the College has a present or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

Agency arrangements

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the College's Statement of Comprehensive Income, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College's Statement of Comprehensive Income.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure.

Employment Benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Retirement benefits

The two principal pension schemes for the College are the Local Government Pension Scheme (LGPS) and the Scottish Teachers' Superannuation Scheme (STSS).

Local Government Pension Scheme (LGPS)

The LGPS is a pension scheme providing benefits based on final pensionable pay, prior to 1 April 2015 and a career average scheme from 1 April 2015. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by an actuary on the basis of triennial valuations using the Projected Unit Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the scheme, after making allowances for future withdrawals. The amount charged to the Statement of Comprehensive Income represents the service cost expected to arise from employee service in the current year.

Scottish Teachers' Superannuation Scheme (STSS)
The College participates in the STSS pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the College. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the year.

Pension Provision

The College has made provision for the enhanced pensions, payable to former employees who have taken early retirement, for which it is liable. This provision is calculated based on the actuarial tables which take account of the enhancement payable, the age, sex and marital status of the former employee. The annual cost of the enhancement is funded from the provision. The provision is made in accordance with FRS 102 and any movements are adjusted through the Statement of Comprehensive Income.

Derivatives

Derivatives are held on the balance sheet at fair value with movements in fair value recorded in the Surplus or Deficit.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows based on observable yield curves.

Reserves

Reserves are classified as restricted or unrestricted. Restricted reserves include balances where the donor has designated a specific purpose and therefore the College is restricted in the use of these funds.

Change in accounting policy

The College is preparing its financial statements in accordance with the 2015 SORP for the first time in the financial year to 31 July 2016.

Following the conversion to 2015 SORP the College has changed the following accounting policies in the financial year 31 July 2016.

For each change we intend to list the following:

(a) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

(i) for the current period;

(ii) for each prior period presented; and

(iii) in the aggregate for periods before those presented; and

(b) an explanation if it is impracticable to determine the amounts to be disclosed in (a) above.]

6. Budget Monitoring Report 12 months to 31st July 2016
For Discussion

13 October 2016
FINANCE COMMITTEE

1. Purpose

To present the Budget Monitoring Report to members for the 12 months to 31st July 2016.

2. Recommendation

That members consider the year to date actual versus projected financial position of the College to satisfy themselves that the College will meet its financial targets for the financial period being reported and mitigate any risks of not meeting these targets. The information excludes the pension and FRS102 adjustments.

3. Background

The purpose of this report is to provide a summary of the College results for the 12 months ended 31st July 2016 and to highlight the key variances between actual outturn and reforecast outturn.

Key Considerations

Income and Expenditure – Actual vs Forecast Outturn – Appendix 1

The breakeven position is £7k lower than the Q3 reforecast.

There are a number of variances in comparison to the full year forecast. Significant variances (greater than £10k) to note are:

Income

- **SFC Grant Income**
  SFC grant income is £43k higher than the year end forecast. This is primarily due to the fact that we drew down more SFC funding (£35k) to cover maintenance work than was originally forecast for the period between April and July, given the maintenance grant is allocated on a fiscal year basis. This is offset by the corresponding increase in revenue maintenance expenses within Property and FM costs.

- **Commercial Income**
  Commercial training income is £36k lower than the year end forecast. This variance is mainly as a result of the drop in Commercial course fee income generated by Compex courses which was £46k below the forecasted total income of £431k for the Academic Year. This is due to courses being cancelled in the last quarter of the year and the resignation of a key member of staff.

- **Modern Apprentice Income**
  MA income is £61k higher than forecast. This is due to a £37k increase in SDS income due to prompt achievement by students and a push by Business Development partners to claim for milestones achieved. This income was originally budgeted for receipt in AY 16/17 therefore will impact the 16/17 budget.

Training charges have also increased by £22k in comparison to the forecast as a result of SNIPEF and CITB income. A portion of the CITB income is offset by costs within other teaching costs for amounts due to Historic Environment Scotland in respect of their CITB stonemasonry apprentices of £16k.

- **Other Income**
  Other income is £36k below forecast as this element relates to the Foundation Apprenticeships which is not due to commence until AY 16-17.

Expenditure

- **Salary costs**
  Salary costs are £48k lower than forecast in part due to the number of vacancies within support departments alongside a lower than forecasted holiday pay accrual.

- **Learning & Teaching Exams & Registration Fees**
  Exams and registration fees are £17k below forecast which is mainly due to underspends in exam fees such as OCR and other exams of £8k. There has been a reduction in the number of requests for the College to host examinations for candidates on behalf of other awarding bodies which has impacted upon the costs. SQA charges were also underspent by £3k as a result of a slight reduction in SQA student numbers.

- **Property & FM Costs**
  Property and FM costs were £24k higher than forecast. This is primarily due to the £35k increase in revenue maintenance costs which is covered by the SFC grant. This increase has been offset by underspends in protective clothing and in costs for the cleaning contract in relation to the clinical suite, both of £4k.

- **Equipment costs**
  Overall equipment costs are £20k below forecast. This was in part due to equipment of £5k which had been ordered for hospitality in July but was not delivered alongside a £3k underspend by Creative Industries. There have also been underspends totalling £12k in maintenance of equipment due to a £3k variance for the department of Care, Health & Sport due to the second tranche of maintenance not being completed on the gym machines as new machines were on order. This was coupled with a £5k underspend in hospitality and a £2k underspend in salon services.

- **Marketing & Communication Costs**
  Overall marketing and communication costs are £19k below forecast. This is mainly due to a £10k underspend in business marketing costs and a £7.5k underspend in other marketing costs due to some of the campaigns being on hold due to the launch of the new website. These campaigns are expected to be picked up in AY 16-17 and will be covered from the existing 16/17 budget.

- **Printing Costs**
  Printing costs are £13k below forecast primarily due to Danwood reducing the charge to compensate for issues with the service during the year which was not included within the forecast.

- **Finance Costs**
  Overall finance costs are £38k below forecast, mainly due to the £30k financial contingency budgeted but not required during the Academic Year.

- **IT Costs**
  Overall IT costs are £32k below forecast. This is partly due to an underspend within the 15/16 revenue maintenance budget (£7.5k) which was not forecast and transferred to IT Costs in quarter 4. AV maintenance, software maintenance and micro-computer support are also underspent by £9k, £5k and £5k respectively as the forecast costs did not materialise.

- **Other Costs**
  Overall other costs are £39k below forecast. This is in part due to Community Planning Partnership contributions being £15k lower than forecast due to the fact that Falkirk and Stirling Councils have not invoiced since April 2015 and July 2014 respectively for their annual contributions. Both Stirling and Falkirk Councils have confirmed that no further contributions are required as the initiatives have ended due to budgetary constraints. In addition, consultancy fees are £22k below forecast, this is due to a number of factors including a £6k underspend in IT consultancy due to costs in relation to a project being delayed, an underspend of £9k in respect of specialist fees FRS 102 advice which was not required and a underspend of £6k in other consultancy fees.

- **Student Funding**
  The final cost will be allocated to student support once the reconciliation and student support audit is completed and the required amount of funding is known.

- **Grant Received from ALF**
  Due to the additional funding announced by SFC for capital of £497k, we have drawn down £339k of this to cover New Falkirk costs that have been incurred to the end of July 2016. Due to this announcement the drawdown of the grant from the ALF has not yet been required.

Balance Sheet – Appendix 2

Fixed Assets

There have been additions of £155k to fixed assets all of which have been funded by Capital Grant. These additions have been offset by the cumulative depreciation charge for the current academic year. Middlefield land was revalued as a result of the piling work required and the full amount of the reduction (£1,650k) was charged to the revaluation reserve.

Current Assets

- **Trade Debtors – Appendix 3**
  Trade debtors have decreased by £21k in comparison to the prior year, the decrease falls mainly within the 31-60 days ageing. The variance is as a result of the timing of sales invoices being raised and payments received in comparison to the prior year.

- **Prepayments and Accrued Income**
  Prepayments and accrued income have decreased by £88k comparison to the prior year. This is due to accrued income increased by £40k due an increase in income due from SNIPEF and CITB for training completed by students (£32k) and some other small increases (£8k).

  There is also a £55k increase in prepayments as a result of an exercise conducted during the year to identify all costs that span an academic year to ensure the appropriate portion of cost is captured in the relevant year.

- **Cash and Bank**
  The Scottish Public Finance Manual requires that we do not draw down any funding in advance of need therefore there is now tighter control over the cashflow and funds held by the college. SFC is also monitoring our cash position more closely and requires additional explanations for the drawdown each month.

  The main movement in the College cash balance is the £678k decrease in the current account in comparison to the prior year. In addition, there have been a number of New Falkirk related costs which the College has not yet drawn down funding from the ALF to cover.

Current Liabilities

- **Trade Creditors**
  Overall trade creditors have increased by £94k in comparison with the prior year. This is largely as a result of timing of creditor invoices received.

- **Taxation & Social Security**
  The increase in the July liability is due to an increase in salaries during 15/16 and a loss of rebate with regard to MAs to which the college was previously entitled to claim.

- **Accruals**
  Overall accruals have decreased by £193k in comparison to the prior year. This is in part due to a lower holiday pay accrual (£164k decrease), a lower pension charge accrual by £36k offset by an increase in accruals made for New Falkirk costs and purchase ledger invoices.

- **Deferred Income**
  The balance of £284k is made up of funding received from SFC and invoices raised in a prior year for courses to be undertaken in AY 16-17.

- **Other Creditors**
  The balance of £150k is due to the Barclays loan.

Revaluation Reserve

The £2,152k movement is due to the in-year depreciation charge for revalued assets of £502k along with the revaluation for Middlefield land of £1,650k.

Revenue maintenance – Appendix 4

These grants are awarded on a fiscal year basis i.e. April to March each year therefore this report covers the period April 16 to March 2017. The balance of £231k will be fully utilised during August 16 to March 17.

Capital Grant – Appendix 5

These grants are awarded on a fiscal year basis i.e. April to March each year therefore this report covers the period April 16 to March 2017. The remaining £341k will be spent during August 16 and March 17.

New Falkirk Costs – Appendix 6

We have allocated £200k of the revenue maintenance grant from the FY 15-16 budget and £339k from FY 16-17 revenue maintenance budget following the announcement of additional funding by SFC during FY 16-17 to support the costs relating to the new Falkirk Campus in the current academic year of £1,739k. The excess costs will in the first instance be covered by the net depreciation (£608k).

4. Financial Implications

The variances in this report mostly represent underspends in certain cost categories.

5. Equalities

Assessment in Place? – N/a

6. Risk

Please indicate on the matrix below the risk score. Risk is scored against Impact and Likelihood as Very Low through to Very High.

	Likelihood	Impact
Very High		
High		x
Medium		
Low	x	
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – Any loss of commercial income or unbudgeted costs could result in the failure to deliver operational surpluses to support on-going operations and the new estate. Also unplanned deficits could result in a Resource budget overspend which is not acceptable to SFC/SG.

Risk Owner – Alison Stewart **Action Owner –** Irene Andrew

7. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – No

Health and Safety – No

Paper Author – Fiona Lovell **SMT Owner –** Alison Stewart

Appendix 1

Income and Expenditure	Forth Valley College		
For the period ended July Yearend			
	Full Year Actual £'000s	Q3 Reforecast £'000s	Full Year Variance £'000s
Income			
SFC Grants	20,727	20,684	43
Loan Grant Release	186	186	0
Tuition Fees	1,484	1,477	7
HEI Tuition Fees	1,606	1,606	(0)
International Income	56	60	(4)
Evening Provision	211	209	2
Commercial Training Income	831	867	(36)
Modern Apprentice Income	2,689	2,628	61
Catering and Hospitality Income	1,088	1,093	(5)
Other Income	688	725	(36)
Bank Interest	14	15	(1)
Total Income	**29,580**	**29,551**	**29**
Expenditure			
Salary Costs	(22,249)	(22,297)	48
Staff Related Costs	(386)	(397)	11
Learning and Teaching Materials	(694)	(692)	(2)
Learning and Teaching Exams and Registration Fees	(486)	(503)	17
Learning and Teaching Student Support	(25)	(32)	7
Learning and Teaching Other	(241)	(245)	4
Catering and Hospitality Costs	(678)	(669)	(9)
Property and FM Costs	(1,661)	(1,637)	(24)
Equipment Costs	(160)	(181)	20
Marketing and Communication Costs	(237)	(256)	19
Printing Costs	(306)	(318)	13
Finance Costs	(425)	(463)	38
Governance Costs	(156)	(152)	(4)
IT Costs	(310)	(342)	32
Telecomms Costs	(88)	(84)	(5)
Other Costs	(122)	(161)	39
Total Expenditure	**(28,226)**	**(28,428)**	**202**
Recharges			
External Recharges	3	(1)	4
Internal Recharges	0	0	0
Total Expenditure	**3**	**(1)**	**4**
Surplus/(Deficit)	**1,357**	**1,122**	**235**
Student Support Funded by College	0	(45)	45
	0	0	0
SFC Revenue Maintenance Grant	382	43	339
New Falkirk Campus	(1,739)	(1,749)	11
Grants received from ALF	0	638	(638)
Surplus/(Deficit)	**0**	**7**	**(7)**

Appendix 2

6. Budget Monitoring Report 12 months to 31st July 2016
For Discussion

13 October 2016
FINANCE COMMITTEE

Balance Sheet

FORTH VALLEY COLLEGE

At July Yearend

	Balance at £'000	Balance at 31st July 2015 £'000	In Year Movement
Fixed Assets			
Tangible Assets	**57,405**	**61,094**	**3,689**
Current Assets			
Stocks	30	27	(3)
Trade Debtors	447	468	21
Prepayments & Accrued Income	1,029	941	(88)
Cash	926	1,609	682
Total Current Assets	**2,433**	**3,045**	**612**
Current Liabilities			
Trade Creditors	251	157	(94)
Other taxation & social security	506	451	(54)
Accruals	1,183	1,376	193
Deferred income	284	302	18
Other Creditors	150	548	398
Total Current Liabilities	**2,374**	**2,835**	**461**
Net current assets/(liabilities)	**59**	**210**	**151**
Long term Liabilities			
Pension Provision	8,698	8,698	
Loan Provision	4,065	4,216	151
Net Pension Asset/Liability	13,517	13,517	
Total Long term Liabilities	**26,279**	**26,430**	**151**
TOTAL	**31,185**	**34,874**	**3,689**
Deferred Capital Grants			
Deferred Capital Grants	31,031	32,462	1,431
Reserves			
Pension Reserve	(13,517)	(13,517)	
General Reserve	(4,787)	(4,787)	
Current year (surplus)/deficit	(105)		105
Revaluation Reserve	18,563	20,715	2,152
Total Reserves	**154**	**2,412**	**2,258**
TOTAL	**31,185**	**34,874**	**3,689**

Forth Valley College

Appendix 3

Trade Debtors								
As at 29th July 2016								
	At 29th July 2016				At 31st July 2015			
	Organisation	Student	Total		Organisation	Student	Total	
Age of Debt	£	£	£	%	£	£	£	%
0 - 30 days	409,640	(5,073)	404,568	88%	365,493	(12,014)	313,477	65%
31 - 60 days	27,275	(3,423)	23,852	5%	54,954	(8,274)	115,041	24%
61 - 90 days	2,504	(1,605)	899	0%	1,466	(3,044)	15,054	3%
91 - 120 days	1,737	(708)	1,029	0%	667	(765)	15,595	3%
121+ days	1,880	26,282	28,164	6%	5,252	16,679	21,178	4%
	443,036	15,474	458,512		427,831	(7,418)	480,345	

Resource Return 2015/16
For Information

13 October 2016
FINANCE COMMITTEE

1. Purpose

To present the final Resource Return for Fiscal Year April 2015 to March 2016 to members.

2. Recommendation

Members note the final Resource Return Outturn for FY 2015-2016 and note that the Resource Return and Review Certificate was submitted to SFC by the Director of Finance.

3. Background

Further to the reclassification of Colleges in Scotland to being an arms-length government body the College is now required to submit government returns based on the fiscal period from April to March each year. The Resource Return is submitted as a measure of the income and expenditure of the College against resource cover allocated to the government department. The Resource cover for the College is, effectively, the SFC Grant Income. The College can generate further resource cover through commercial activity. Resource underspend results in a build up of cash that gets frozen if not expended. To counter that Colleges were permitted to set up an Arm's Length Foundation into which cash surpluses are currently transferred.

A draft resource return (Q4/3) covering the 12 months to 31 March 2016 was submitted to the Scottish Funding Council in April. Due to the close proximity of the submission deadline to the yearend date, a further final submission (Q4/4) is due in September and includes transactions that were unknown at the time of the Q4/3 submission.

SFC has issued Colleges with a Review Certificate, to be completed by the Director of Finance. The completion of this certificate ensures that there is no requirement for an independent audit of the resource return, nor does the review certificate work require to be independently audited.

4. Movement between Q4/4 and Q4/3 Submission

The main variance between the Q4/3 submission in April 2016 and the final submission in September 2016, is a minor adjustment against accruals and the accrued grant from the Forth Vallecy College Foundation of £11k and the incorporation of pension valuation adjustments.

The SFC announced the sector has been allocated a further cash resource cover for "net depreciation" for the fiscal year April 2015 to March 2016. This also has an effect on the financial results. Utilisation of this resource cover results in an operating deficit in a College's published Income and Expenditure Account at 31 July 2016.

5. Resource underspend

The College is reporting a resource underspend in relation to the Scottish Government's Resource Department Expenditure Limits (DEL) of £144k which is equates to the loan repayments they made during the year.

6. Revaluation of Assets

At the time of submitting the Reource Return Outturn the revaluation of Middlefield had not been carried out. It was anticipated there would be an impairment of the asset due to site investigation works which identified significant issues with the land which would require abonoral piling for the new campus. I was consisered that as the issue was identified post March 2016 there was no requirement to include the impairment in the final Q4/4 return for 2016. This was noted on the Review Certificate submitted to SFC.

7. Equalities

Assessment in Place? – Yes ☐ No ☐ Non-Applicable ☒

8. Risk

	Likelihood	Impact
Very High		
High		
Medium	x	x
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions

Risk is that underspend of Resource budgets could result in reductions in future funding.

Risk Owner – Alison Stewart **Action Owner –** Irene Andrew

9. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes ☐ No ☒ **Health and Safety – Yes ☐ No ☒**

Paper Author – Alison Stewart **SMT Owner –** Alison Stewart

Appendix 1

ANNEX A1

Resource Budget Control - College Quarter 4 Month 3 Resource Return for April 2015 to March 2016

College Name	Forth Valley
College Contact	Irene Andrew

Enter YTD Actual and Forecast outturn in blue shaded cells

	HMT Resource Classification	Year to Date Budget £000	Actual £000	Variance £000	%	Check
Income						
SFC Grant Cash		21151	21329	178	1	
FE/HE Childcare		487	589	102	21	
Student Support: Bursary		2937	2681	-256	-9	
Student Support: Discretionary		261	193	-68	-26	
Profit or (loss) on disposal of non current asset		0	0	0	0	
Other Income		10195	9810	-385	-4	
UHI HE Funding (UHI colleges only)		0	0	0	0	
Total Income		**35031**	**34602**	**-429**	**-1**	
Expenditure						
Wages and salaries	RDEL	23199	22820	-379	-2	
(Gross) Operating costs	RDEL	7409	7672	263	4	
FE/HE Childcare	RDEL	487	598	111	23	
Student Support: Bursary	RDEL	3095	3113	18	1	
Student Support: Discretionary	RDEL	263	241	-22	-8	
Bad Debt	RDEL	15	14	-1	-7	
Utilisation of pre 31 March provisions (negative)	RDEL	0	0	0	0	
Donation to ALF	RDEL	0	0	0	0	
Total Expenditure		**34468**	**34458**	**-10**	**0**	
Under/(overspend) on Resource Budget	RDEL	**563**	**144**	**-419**	**-74**	
Capital DEL						
SFC Capital Grants (negative)	CDEL	0	-305	-305	0	
Income from disposal of non current assets (negative)	CDEL	0	0	0	0	
Other external income(negative)	CDEL	0	0	0	0	
Receipt from ALF (negative)	CDEL	0	0	0	0	
Capital additions to non-current assets	CDEL	0	305	305	0	
Under/(overspend) on Resource Budget	CDEL	**0**	**0**	**0**	**0**	
Ring Fenced RDEL						
Depreciation		2422	2382	-40	-2	
Deferred Capital Grant Release (negative)		-1754	-1769	-15	1	
Amortisation	Ring-fenced RDEL	0	0	0	0	
Impairment (where not classed as AME)	Ring-fenced RDEL	0	0	0	0	
Total Ring Fenced RDEL	Non Cash Resource	**668**	**613**	**-55**	**-8**	
AME						
Provisions (where agreed as AME)	AME	0	0	0	0	
Accruing pension liablity	AME	0	-488	-488	0	
Depreciation on assets funded by capital grants from Private sector/donations/lottery	AME	0	0	0	0	
Impairments (where agreed as AME)	AME	0	615	615	0	
Total AME		**0**	**127**	**-127**	**0**	

Annex 1

Resource Return Review Certificate to the Scottish Funding Council

2015 – 2016: Assurance Statement for the Resource Return

I can confirm that I have reviewed the required assurances within my college in accordance with the schedule of review at Annex 2.

Based on that review, there are matters which require the resource return to be adjusted as detailed below and which have been incorporated in the revised 31 March 2016 resource return attached to this document

A list of the items to be adjusted using the same description as used on the resource return should be entered here together with the value (£).

Other Income: Reduction in grant from ALF to FVC of £11k

Operating Costs: Reversal of accrued costs by £11k

Pension Valuations: Based on valuation at 31 July 16

Revaluation of Assets: Valuation report is outstanding at this date, however as at 31st March 2016 there was nothing to indicate any impairment of assets. Possible impairment of the land at Middlefield has been identified in July 16 and will be reflected in the 2016/17 Resource Return.

Name	Alison Stewart
Job title	Director of Finance
Date	12 September 2016
College	Forth Valley College

Return to gmap-returns@sfc.ac.uk by 09 September 2016

Forth Valley College
Programme of Finance Committee Business

	Nov-16	**Mar-17**	**Jun-17**	**Sep-17**
1 Apologies for absence	✓	✓	✓	✓
2 Declarations of interests	✓	✓	✓	✓
FOR APPROVAL				
3 Minutes of previous meeting	✓	✓	✓	✓
4 Maters Arising	✓	✓	✓	✓
Student Association Accounts & Budget				✓
Accounting Policies				✓
Resource Return 2016/17 (Q4/4)				✓
Annual Accounts	✓			
Procurement Strategy	✓			
Resource Return 2016/17 (Q4/2)		✓		
Transfer to Forth Valley College Foundation		✓		
Tuition Fees & Fee Waiver Policy		✓		
Budget 2017/18			✓	
Treasury Management Strategy 2017/18			✓	
FOR DISCUSSION				
Forecast Outturn 2016/17 @ January 2017		✓		
Forecast Outturn 2016/17 @ April 2017			✓	
Forecast Outturn 2016/17				✓
Review of Risk	✓	✓	✓	✓
Any other competent business	✓	✓	✓	✓
FOR INFORMATION				
Programme of Committee Business	✓	✓	✓	✓
Budget Monitoring - 2016/17 Qtr 1 (Oct 2016)	✓			
Budget Monitoring - 2016/17 Qtr 2 (Jan 2017)		✓		
Budget Monitoring - 2016/17 Qtr 3(Apr 2017)			✓	