

Falkirk Boardroom, Falkirk Campus at 4.00pm
(Refreshments available from 3.30pm.)

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of meeting of 12 September 2017
3. Matters Arising
 - a) F/16/036 Budget 2017/18
 - b) F/17/006 Resource Return 2016/17
 - c) F/17/008 Forecast Outturn 2016/17
4. Annual Report and Financial Statements 2016/17
(Joint item with Audit Committee) Alison Stewart
5. Draft External Audit Annual Report to the Board of Management
(Joint item with Audit Committee) – To Follow Ernst & Young

FOR DISCUSSION

6. Procurement Review Paul Johnstone
 7. Business Development Activity – To Follow Jennifer Tempany
(Paper 7 is 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.)
 8. Student Funding Outturn for 2016-2017 and Forecast for 2017-18 Louise Burnett
 9. Budget Monitoring - 2017/18 Qtr 1 (Oct 2017) Irene Andrew
(Elements of this paper 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.)
 10. Review of Risk
 11. Any other competent business
-

Project Meeting Room, Falkirk Campus (commencing at 4.30pm)

Present: Mr Liam McCabe (Chair)
Mrs Caryn Jack
Mr Ken Richardson
Mr Andrew Carver
Ms Trudi Craggs

Apologies: Mrs Pamela Duncan

In Attendance: Mr Ross Martin, Chair of the Board of Management
Dr Ken Thomson, Principal
Mrs Alison Stewart, Associate Principal and Executive Director of Finance
Mr Alan Buchan, Student Association President (For item F/17/004 only)
Mr Stephen Jarvie, Corporate Governance and Planning Officer

F/17/001 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/17/002 Minutes of meetings of 21 June 2017

The minutes of the meeting held on 21 June 2017 were approved.

F/17/003 Matters Arising

a) F/16/036 Budget 2017/18

The Associate Principal and Executive Director Finance circulated copies of a proposed new covenant with Barclays bank. She reported that the covenant was in alignment with existing requirements from the Scottish Funding Council (SFC) so there should be no risk of breach.

She noted that the draft was now with the College lawyers for final verification.

b) F/16/038 Q3 Forecast Outturn AY 16-17

Members asked for an update on the review of the Business Development structure. The Associate Principal and Executive Director Finance informed members that this was currently being finalised.

The Chair requested that the outcome be brought to the next meeting of the committee.

F/17/004 Student Association Outturn for 2016-17 and Student Association Budget for 2017-18

The Student Association President presented members with an overview of the Association's spend and proposed budget for the current academic year.

As regards the 2016-17 figures the President outlined the variances in the outturn compared to budget and the reasons for these and confirmed the intention to carry forward the underspend from the previous year into the current one.

- a) Members approved the Student Association Budget for 2017-18

F/17/005 Accounting Policies for year ended 31 July 2017

The Associate Principal and Executive Director of Finance presented the proposed accounting policies and highlighted changes from the previously agreed policies.

Members queried whether assets under construction should be included in the policies. The Associate Principal and Executive Director Finance confirmed that this should be retained however the reference to 31 July 2016 would be removed from the final version.

- a) Members approved the Accounting Policies for year ended 31 July 2017

F/17/006 Resource Return 2016/17

The Associate Principal and Executive Director of Finance noted that the College was largely in the same position as last year and was in line with SFC expectations. She highlighted that the revaluation of the Middlefield site had been missed but that SFC had been made aware of this.

Members queried whether this had an impact on the Arm's Length Foundation. The Associate Principal and Executive Director Finance confirmed that it did not. The Chair of the Board of Management noted that it would be beneficial to receive more information on Arm's Length Foundations.

- a) Members approved the submission of the Resource Return 2016/17

F/17/007 Financial Forecast Return 2017/18 – 2021/22

The Associate Principal and Executive Director of Finance presented the Financial Forecast Return (FFR) which SFC were requesting as a result of Audit Scotland guidance. She noted that the College sector was one of only a few asked to complete 5 year forecasts.

She highlighted that a number of the assumptions within the FFR had been provided by SFC and were not necessarily what the College would have used..

She highlighted that the FFR did demonstrate a deteriorating position for the College owing to flat cash, national bargaining implications and other increases in costs such as pay increments and pension provisions.

Following discussion, members requested that the FFR be presented to the Board of Management for consideration delineating the College's concerns and highlighting where SFC assumptions had been used as the basis for the figures.

a) Members recommended that the FFR be submitted to the Board of Management

F/17/008 Forecast Outturn 2016/17

The Associate Principal and Executive Director of Finance presented the financial outturn and reported that the College was in a slightly better position than last forecast, with no significant adjustments forecast.

She raised Modern Apprenticeship funding as an area that remains hard to accurately predict and the Principal noted that the funding model for this activity can prove to be challenging compared to credit funding.

Members noted that this should be looked into further.

a) Members noted the content of the report

F/17/009 Review of Risk

No new risks were identified

F/17/010 Any other competent business

None.

1. Purpose

To present to members the Annual Report and Financial Statements for the year to 31 July 2017.

2. Recommendation

Members consider the financial position of the College for the year ended 31 July 2017 and approve the Annual Report and Financial Statements for the year ended 31 July 2017.

3. Background

The Office for National Statistics (ONS) reclassification of FE Colleges came into effect from 1 April 2014. There are a number of significant implications resulting from this reclassification not least the inability to retain surplus cash without this in effect being frozen due to government resource budgeting restrictions.

The Annual Report and Financial Statements have been prepared in accordance with the Accounts Direction issued by the Scottish Funding Council in August 2015 which requires the College to comply with the Statement of Recommended Practice: Accounting for Further and Higher Education issued in July 2015 (2015 SORP), the Scottish Public Finance Manual (SPFM) and the Scottish governments Financial Reporting Manual (FReM).

The SPFM and FReM both require additional disclosures.

4. Key Considerations

The adoption of the Financial Reporting standard (FRS) 102 and the 2015 SORP combined with the government accounting restrictions on the ability to retain cash surpluses due to resource budgeting restrictions means it is becoming increasingly difficult to present the College's financial position in a way which informs readers of the true underlying financial sustainability of the College.

The key consideration for members is the long term financial sustainability of the College. This is referred to within the Annual Report and Financial Statements as the College continuing to operate on a "going concern" basis. Under the current reporting regime previous indicators such as reporting an operating surplus and having a strong Balance Sheet with net assets are no longer achievable. This does not however mean that the College is financially unstable.

The key measure going forward is the College's ability to generate cash from its day to day operational activities and that it can meet its liabilities as they fall due. The impact of non cash technical accounting adjustments while they are relevant to some extent should be excluded when assessing the College's financial strength.

The Financial Performance section of the Performance Report provides a detailed review of the College's financial performance for the year ended 31 July 2017 and its financial position at 31 July 2017. The key points to note are

- The College generated an underlying operational surplus of £736k against the original budget, excluding non-cash adjustments, the estates development cost and the loan payment.
- The net liability position is distorted due to the technical accounting adjustments in relation to the treatment of government capital grants and pension liabilities. Also, the impact of reclassification where surplus cash has been donated to an arm's length foundation or spent to support the estates development programme impacts on the net liabilities.
- A £2m grant, was received in-year from Glasgow Kelvin College and used to purchase the additional land at Middlefield, Falkirk and covered some of the 2016/17 New Falkirk estates development costs.
- As a result of receiving the above mentioned £2m grant earlier than planned, the College delivered an increased operational surplus and approval was sought from SFC to donate surplus funds to Forth Valley College Foundation.
- The external auditors are content there are no going concern issues as the underlying financial position has been clearly demonstrated.

5. Financial Implications

SFC guidance states that for the financial period ended 31 July 2017 Colleges are permitted to report deficits equivalent to the net depreciation figure and FRS 17 pension charges and FRS 102 adjustments. The reported financial position falls within the guidelines.

Reporting a deficit does have implications however, and to counter any queries or concerns by the users of the Financial Statements, SFC have issued a statement of assurance for Colleges to incorporate into their Financial Statements for the financial period ended 31 July 2017. This statement stated the deficit should be viewed as a "technical" deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. The full Statement is in Note 36 of the Accounts.

6. Banking Covenants

A new covenant has been agreed with Barclays linked to the resource outturn. The College has met this covenant for 2016/17.

7. Equalities

Assessment in Place? – N/a

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		
Medium		x
Low	x	
Very Low		

Due to the adoption of FRS 102 in terms of the accounting treatment of certain items and the associated presentational changes, the college's underlying financial health is being masked. There is a risk that those not familiar with the technical aspects of Financial Statements will misinterpret the state of the College's financial health. In mitigation of this it needs to be stressed that both the Board of Management, SFC and the external auditors are in agreement that there is no going concern issues.

Risk Owner – Alison Stewart

Action Owner – Irene Andrew

Paper Author – Alison Stewart

SMT Owner – Alison Stewart

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FORTH VALLEY COLLEGE OF FURTHER AND HIGHER EDUCATION

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 July 2017

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The financial statements were approved and authorised for issue on 7 December 2017.

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PERFORMANCE REPORT

OVERVIEW

Principal and Chief Executive's statement

In 2016/17, thanks to the hard work of our staff and students, the College has continued to live up to its mission of "Making Learning Work".

The year has not been without its challenges. The impact of externally driven National Bargaining process on delivery and our continued inability to retain surpluses owing to reclassification as a public body, have underlined the need for careful management of College resource to minimise the impact on our students.

In order to support our aspirations for the College, our commercial and apprenticeship activity has continued to play a vital role in the life of the College and the development of these and new markets have remained a key priority for the College. We are grateful for the continued support from existing stakeholders and welcome the opportunity to work with new partners locally, nationally and internationally to secure the benefits of new apprenticeship schemes such as Foundation Apprenticeships.

The College has continued to make headway with our aspirations to deliver a new Falkirk headquarters campus to the standard of our Alloa and Stirling campuses. 2016/17 saw continued positive progress towards the realisation of the new Campus. In August 2017, our Board of Management approved the final Decision Point report for submission to the Scottish Funding Council and Scottish Government, with final approval received on 4 October 2017. The College also undertook a comprehensive tendering process and identified a preferred contractor, with the contract for the main building being awarded to Balfour Beatty on 11 October 2017.

The College continued to embed and celebrate creative learning throughout our curriculum. There has been significant engagement with lecturing staff and a real sense of positive motion to embedding this throughout the College.

The College also continued to demonstrate that it was the place to be for STEM learning. I am justifiably proud of our outstanding success rates particularly in relation to our STEM provision. They demonstrate our passion for driving the STEM agenda forward and the vital role that Forth Valley College is playing in delivering the quality skills and training required for Scotland's future economic success.

It has also been an excellent year with rewards and recognition from the Scottish Training Federation, College Development Network, Scottish Qualifications Authority (SVQ) Star Awards and by Skills Development Scotland for Modern Apprenticeships.

Overall I am incredibly pleased with how we have met the challenges facing us and have continued to deliver for students, our staff and other College stakeholders.

Dr Ken Thomson

Principal and Chief Executive

7 December 2017

Vision, purpose and activities

Legal Status

Forth Valley College came into being on 1 August 2005 as a result of the merger of Clackmannan and Falkirk Colleges. The Office for National Statistics (ONS) reclassified all incorporated Further Education (FE) Colleges as central government entities, to be referred to as Arm's Length Public Bodies from 1 April 2014. The College is a registered charity (Scottish Charity number SCO21191) for the purposes of the Law Reform (Miscellaneous Provisions) (Scotland) Act 2005.

The Financial Statements cover all activities of the College.

Mission Statement

The College Mission Statement is:

Making Learning Work

College Vision

The College Vision is:

**Shaping the Future
Delivering a World Class Service
Driving Our Momentum**

Strategic Themes

Forth Valley College of Further and Higher Education has 6 key strategic themes for the period 2014 - 2018. These are:

- Creating a superb environment for learning
- Cultivating a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly
- Instilling an energy and passion for our people, celebrating success and innovation
- Leading as a business that is a champion for governance, financial control and balanced risk taking
- Enhancing our position as the business and community partner of choice
- Delivering a whole system approach. Simply effective, efficient and consistent.

Performance Summary

During 2016/17 the College continued to progress our vision of 'Making Learning Work'.

Creating a superb environment for learning – We have continued to invest in our estates ensuring we offer the best possible learning environment for our students. The College submitted a Decision Point 4 report to the Scottish Funding Council and Scottish Government for the final approval to appoint a Main Contractor in September 2017. Approval was received on 4 October 2017 and the main contractor started on site on 23 October 2017.

The project remains on programme and within budget and extensive internal consultation has also occurred along with public events and meetings with key external stakeholders.

Throughout the process, governance arrangements have been in place with a specialist Falkirk Campus Project Board established to oversee progress. The Falkirk Campus Project Board comprises members of the Board of Management, a dedicated College Project Team, along with representation from College staff and the Scottish Futures Trust.

Our new campuses in Alloa and Stirling also continue to perform well, with high demand for the accommodation and positive feedback from students, staff, the local community and visitors on the quality of the facilities we offer.

Cultivating a vibrant learning organisation where learners develop skills, achieve qualifications valued by industry and progress seamlessly – This theme is fundamental to ensuring we live up to our mission statement of “Making Learning Work”.

In 2016/2017 we continued our Curriculum Review process to ensure that our future curriculum developments continue to meet the needs of the employers of Forth Valley and beyond and to take full account of national priorities, such as the Scottish Government’s Youth Employment Strategy and the latest available information about regional skills needs.

In 2016/2017 the College further developed its cutting edge Creative Learning initiative, with numerous initiatives across the college through which staff were supported to work collaboratively with colleagues, across departmental boundaries, to design and facilitate innovative and value-added learning experiences for their students.

We continued to operate our successful “Listening to Learners” focus group process, through which over 3,000 students contributed their views and helped to shape learning within their programmes of study. Satisfaction levels remain very high across all of the factors included on the focus group agendas. In the 2016/2017 National Student Satisfaction and Engagement Survey required by SFC, 95% of Forth Valley students reported that they were overall satisfied with their college experience.

Instilling an energy and passion for our people, celebrating success and innovation – Staff development processes have been revamped and have proved to be successful in their innovative approach in engaging staff and creating a platform of ownership and pride in the delivery of learning and teaching as well as increasing the knowledge base, skills and industrial experience of employees. The staff development theme of Creative Learning develops into its next stage of innovation and has seen staff throughout the organisation embrace this in their practice. The Ambassador role within the College has also moved onto the next stage with an interactive web page and blog which captures the benefits of representing Forth Valley College at a wide range of national and international events. This also gives more opportunities for staff to represent the College at a wide range of events.

The total response rate for our second cultural survey was 340 completed surveys, which is around 54% of the college establishment. This figure is a slight drop of around 2.3% from the previous survey. Overall engagement of the cultural survey was extremely positive - achieving over 80% engagement across all 9 sections. Discussions are now in place to provide an action plan which will highlight key targets from the survey and focus on improvements.

Forth Valley College has officially been accredited as a UK Living Wage Employer and has also been awarded The Scottish Business Pledge.

Leading as a business that is a champion for governance, financial control and balanced risk taking – The Board of Management approved the updated Code of Good Governance for Scotland’s Colleges in December 2016. The College continues to work within this framework. During the year the College completed a recruitment process for new Board members and the re-appointment of 5 existing Board members in line with the Sector Board Appointments: 2014 Ministerial Guidance. The new appointments of 2 non-executive members were approved by Scottish Ministers in December 2016 and the re-appointment of the 5 existing members was approved in March 2017. A formal induction process has been completed by the new members. The Scottish Government lead on the appointment of a new Chair of the Board of Management following the resignation of the existing Chair in February 2017.

A full report on the College’s financial performance is included within the Performance Analysis section of this report. Overall the College’s financial health continues to be strong which is demonstrated by the ability to generate significant levels of cash surplus on the day to day operational activities of the College. In 2016/17 this has been used to support our estates development programme for a new Falkirk campus. As an arms-length public body the College is not expected to retain reserves for future investment and is required to balance its Resource Budget.

Enhancing our position as the business and community partner of choice – Strong employer and stakeholder relationships are key to ensuring we maintain our position as a partner of choice. One of the highlights this year

was the employer ambassador model developed to promote work based learning with 12 Key Employers to mutually champion Modern Apprenticeships through extensive CPD opportunities, organised school events and international business exchanges.

With an SDS contract now above £1m and an achievement rate of 84% we are continuing to maintain our position as a leading Modern Apprenticeship (MA) provider in the sector and continue to grow MA provision across 7 specific disciplines to satisfy industry requirements. Additionally, we have developed our Vocational Qualification (VQ) delivery direct to employers and are expanding this activity in a number of areas. Focusing on Clackmannanshire and Stirling we have mapped out our customer base allowing us to identify areas for growth across MA, SVQ and commercial provision, ensuring that we are meeting the training needs of our local community. This is particularly evident in Hospitality and Care SVQ and MA provision. We continue to explore and capture opportunities to extend our stand alone SVQ provision within the Care and Hospitality sectors. This allows us to continue to grow additional income streams. The introduction of electronic portfolios for VQ delivery will only enhance this in the coming year.

The global downturn in oil and gas has affected many of our partners over the last 18 months however from January 2017 we have seen signs of recovery within the sector. This is particularly evident in the steady increase uptake of numbers in CompEx. During this competitive time we continue to partner with a number of key partners. One of these is the Engineering Construction Industry Training Board (ECITB) where through adapting and evolving our modes of delivery we introduced the successful pre apprenticeship programme alongside the Modern Apprenticeship programme to ensure talent is available as they emerge into the recovery phase for their sector. To date 100% of those successfully completing the pre apprenticeship programme have progressed onto employment within the oil and gas sector.

Partnership is fundamental to achieving the College's vision of Making Learning Work both nationally and internationally. The college continues to engage with partners including Scottish Development International to assist in raising the colleges profile in regions and sectors aligned with our training and skills capability. Furthermore, the college is active in pursuing partnerships to enhance our position as a partner of choice and we're currently developing bespoke partnerships including national and international projects with Glasgow Caledonian University, Heriot Watt University and University of Aberdeen.

The college has also increased engagement in international mobility projects with Construction, Access & Progression, Care Health & Sport and Hospitality & Salon Services departments all engage in European student mobility or Erasmus Plus 'key strategic partnership' projects which include a number of European partner institutions from Spain, Netherlands, Sweden, China, Germany and Malta.

All the relationships and activities with our key employers and stakeholders have generated a tangible benefit to the College, supporting best practice and contributing towards the college's financial sustainability.

Delivering a whole system approach. Simply effective, efficient and consistent – We have continued to maximise the benefit from the significant investment in the College's ICT infrastructure over recent years. The amount of material available via our Moodle portal has increased, providing increased flexibility and allowing learners to take control of their own learning. This has been supported by increased use of the Eduroam service which enables students to bring in their own laptops and smartphones which can access College resources via the College wireless network.

We have continually improved our online application process, supported by the functionality for applicants to create a bespoke prospectus on our website, to provide a clear and supportive system to new and returning students. We have embedded our online student funding application which significantly improved the application process and helped to ensure faster decision making and communication to students. We have enhanced our processes with all record of interview information stored electronically, with processes in place to ensure our students are informed timeously of the outcome of their application interview, and we have also developed a schools portal in partnership with Falkirk Council, which allows local schools to see real-time information on school pupil applications to the College, which we hope will enable enhanced dialogue between all partners to enable students to successfully transition onto their correct course.

Through the development of a College Data dashboard we expanded the amount and range of real-time information available to appropriate staff throughout our organisation, and we have continued to develop our HR systems to allow staff access to a self-service "My Staff Record" area. For students we have further developed "My Info" to provide real-time access to initially timetable and attendance information, with the ability to access this portal from any mobile device.

During last session we piloted the use of Microsoft Surface devices, and for the current session this pilot is being extended to all teaching staff within our Stirling Campus, with the vision to enable staff to work flexibly and have more control of the IT device that they are using for delivering learning, to enable the device to be bespoke to the member of staff.

Principal Risks and Uncertainties

The College recognises the need to take informed and calculated risks to allow for the growth of the College. The College has comprehensive risk management systems in place to ensure that risks are fully analysed and receive the appropriate level of approval before activity commences. All risks identified within the College are monitored on an on-going basis and specialist registers are created for large individual projects such as estates developments.

The College has updated the strategic risk register to reflect the recent changes across the sector. The register provides details of individual risks, their potential consequences and the mitigating actions put in place to manage these risks.

The College has robust risk management processes in place to ensure relevant risks are captured, assessed and (where possible) mitigated against. The College maintains a register of strategic risks which is reported on at each meeting of the Audit Committee as well as being reported to the Board of Management.

At this time, the top risks on the Strategic Risk Register are:

- Failure to successfully exit from the current contractual obligations for the telecoms array on the West Block will negatively impact on College finances and estates development
- Strike action arising from National Bargaining negotiations will impact on the learning and teaching provision for students
- National bargaining will impact on the salary structure and terms and conditions of both support and teaching staff
- The current economic environment including Brexit will impact of the College's ability to generate commercial income
- Uncertainty over future SFC funding levels which impacts on curriculum planning and financial sustainability
- Implementation of the new General Data Protection Regulations (GDPR) by the EU and any subsequent UK legislation will impact on College data management practices.

Going concern

The net liability position reported in these Financial statements is due to the adoption of Financial Reporting Standard (FRS)102 which resulted in the reclassification of Capital Government Grants previously treated as Reserves to Liabilities due greater than one year. The net liabilities include a Pension Provision for early retirements of £7.3m and Pension Liability of £19.2m for College's share of the Falkirk Council Local Government Pension Scheme (LGPS). To the extent that the pension deficit is not met from the College's other sources of income, it may only be met by future grants or Grant In Aid from the Scottish Funding Council. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need. The Board of Management of Forth Valley College has no reason to believe that future support will not be forthcoming. Given the above it has accordingly been considered appropriate to adopt a going concern basis for the preparation of these annual accounts.

PERFORMANCE ANALYSIS

Performance Indicators

The College has adopted the core set of performance indicators which were developed by the Colleges' Finance Community of Practice. The table below details performance in 2016/17 and 2015/16.

		Year Ended 31 July 2017	Year Ended 31 July 2016
Operating deficit as % of total income: deficit on continuing activities after depreciation of assets at valuation and loss of revaluation of land and buildings, and before disposal of assets and tax expressed as percentage of total income.		(2.1%)	(6.2%)
Non SFC Income as % of total income: total of non-SFC income expressed as a percentage of total income.		32.0%	30.8%
Current assets : current liabilities: ratio of total current assets to the total of creditors: amounts falling due within one year.		0.76:1	0.65:1
Days cash: cash and short-term investments divided by total expenditure less depreciation and expressed in days.		29	11
Staff turnover: FTE staff on a permanent contract of employment that leave for whatever reason during the year divided by the total FTE permanent staff at the college at the period end.		6%	4%
Working days lost through sickness absence: working days lost per staff FTE through sickness absence divided by the total FTEs employed at the institution at the period end (expressed as percentage).		3%	2%
Credits per staff FTE: actual Credits delivered in the year per FES return divided by total of FTEs involved in delivery of Credits.		323	329
		Year Ended 31 July 2017	Year Ended 31 July 2016
Performance against Credits: actual Credits delivered in-year divided by target Credits.		100%	100%
Student outcomes: total enrolments for students completing programme with a national qualification aim, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	73%	70%
	FE Part time	92%	91%
	HE Full time	70%	75%
	HE Part time	85%	88%
Student retention: measures number of enrolments for which the student has completed the programme, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	77%	75%
	FE Part time	96%	95%
	HE Full time	82%	83%
	HE Part time	94%	92%
Early student retention: measures the number of enrolments for which the student has reached the 25% date for funding purposes, expressed as a percentage of all enrolments (per the student and staff performance indicator publication).	FE Full time	93%	96%
	FE Part time	99%	99%
	HE Full time	97%	98%
	HE Part time	99%	99%

Current & Future Developments

We continue to rigorously review our overall curriculum portfolio, in the light of local and national skills priorities and sustain an excellent reputation with our employers, delivering industry-relevant courses within our campuses and bespoke training on employers' premises. We value these close links and utilise employer input to maintain the vocational relevance of the training we offer, and to secure the future employability of our learners.

A continued specific focus for curriculum development during 2016/2017 was the Developing the Young Workforce agenda and the associated Scottish Government Youth Employment Strategy, which set out seven year plans for schools, colleges, apprenticeships, employers and equality.

One target within the Strategy is to increase the percentage of school pupils achieving vocational qualifications at SCQF level 5 or above. In pursuit of this aim, the College continued to develop and expand its portfolio of qualifications at SCQF levels 5-7 for senior phase school pupils from our three partner local authorities. This included newly developed Foundation Apprenticeships in Social Services and Healthcare; Social Services Children and Young People; and Financial Services and Engineering.

In terms of learning and teaching, during 2017/18 we will maintain our strong focus on developing a culture of creativity in learning, using a lively and engaging Creative Learning Conference for staff in August 2017 as a catalyst for all staff to develop personal objectives for creative learning which will be formalised and monitored through our PRD process throughout the year. In 2016/17 we will also build on the success of our current Learning Strategy: Empowering Learners and develop this into a new, future-focused Creative Learning and Technology Strategy for 2018 - 2022, ensuring that we are fully prepared to maximise the benefits to learning and teaching that our new Falkirk Campus will bring.

As a key enabler of our new Creative Learning and Technology Strategy, during last session we piloted the use of Microsoft Surface devices, and for the current session this pilot is being extended to all teaching staff within our Stirling Campus, with the vision to enable staff to work flexibly and have more control of the IT device that they are using for delivering learning, to enable the device to be bespoke to the member of staff.

In terms of curriculum, we will continue to rigorously review our future portfolio to ensure that it fully reflects Skills Development Scotland's (SDS) regional skills plans, maximises employer engagement and delivers on our Outcome Agreement targets. This will include further development of vocational provision for senior phase school pupils, including further SDS funded Foundation Apprenticeships. We will also continue to work closely with our Higher Education Institute (HEI) partners to maximise success and progression on our existing integrated degree programmes and to develop additional articulation agreements for Higher National (HN) graduates.

Internationally we are connecting with the University of Stirling and Glasgow Caledonian University to offer a 2 plus 2 degree programme to international students in Biological Sciences and Engineering. The international students will be students of the university for the 4 year period with the college delivering years 1 and 2. This model will be based on our highly successful integrated degree programmes and other courses will be explored as an option for international students.

We have introduced an E-Portfolio project, One-File, to initially offer modern apprentices an electronic system for monitoring and assessing vocational qualifications. This has been piloted in construction, engineering and business development, and will be rolled out to cover all VQ activity throughout the coming session.

As we continue to develop and strengthen our employer relationships we have initiated the development of key systems to ensure data is recorded and maintained, and can provide KPIs for our key areas of delivery. For example our employer engagement system will support how we are engaging with employers and maintain key information and data about the employers and stakeholders we are working with. This will also be supported by an employer portal to provide employers with essential data on their employees in relation to attendance, progress and behaviours when attending College.

Financial Performance

The finances of Forth Valley College are regulated by the Financial Memorandum between the Board of Management and the Scottish Funding Council (SFC) under which the Principal is designated as Accounting Officer, responsible to the Chief Executive of the SFC for the stewardship of the College's finances and assets.

The reclassification of the College as an arm's length public body, effective from 1 April 2014, means the College is also regulated by the Financial Reporting Memorandum (FRoM) and also by the Scottish Public Finance Manual (SPFM).

The financial statements have been prepared to comply with the Accounts Direction issued by SFC, the FRoM and the revised Statement of Recommended Practice: Accounting for Further and Higher Education which was issued in July 2015.

The College's financial objectives are:

- maintain a position of financial security in the context of significant internal and external demand upon resource
- optimise land and other assets in the interest of the College
- manage the impact of estates development upon financial security
- continue to seek increased allocations from SFC to meet demographic demand
- grow commercial activity rates and overall contribution to the College
- implement efficiencies and improvements identified through our business transformation activity
- embedded sustainability throughout College practices.

Underlying Operating position

The following table provides the underlying operating position for Academic Year 2016/17:

	Actual Year Ended 31 July 2017	Actual Year Ended 31 July 2016
	£000	£000
Deficit before other gains and losses	(742)	(2,085)
Add back:		
Depreciation (net of deferred capital grant release)	621	608
Impairment	415	0
FRS 102 SWAP Rate valuation movement	(257)	441
Non-cash pension adjustments	1,089	1,037
Donation to Arms-length Foundation	579	0
Estates development costs	1,805	1,739
	3,510	1,740
Less:		
Government grant for estates development costs	497	0
Other Government grant from Glasgow Kelvin College	2,000	0
Non-Government capital grants (e.g. ALF capital grant)	131	370
Revenue funding allocated to loan repayments and other capital items	146	370
	2,774	370
Underlying operating surplus	736	1,370

The underlying operating surplus of £736k demonstrates that the college is operating sustainably within its funding allocation.

In October 2014 the Scottish Government announced funding for a new Falkirk campus through Scottish Future's Trust NPD (Not for Profit Distribution) programme. In April 2016 the College received confirmation from Scottish Government that the funding route was being changed to Capital Grant. The estates development costs expensed through the Statement of Comprehensive Income have been identified separately and relate to professional advisors fees in the preparation of the College's Full Business Case for the new campus.

SFC issued assurance to the College that deficits which arise from non-cash transactions should not be interpreted as a challenge to the College's financial sustainability and these should be treated as a "technical" deficit. Audit Scotland accepts that a deficit arising from the use of cash funding originally provided for non-cash depreciation does not indicate an underlying financial sustainability concern.

Balance Sheet

As per FReM guidelines, and as a result of the formal Ministerial approval gained for the construction of the new Falkirk campus on the Middlefield site, a valuation was sought for the existing Falkirk campus on Grangemouth Road, which resulted in the buildings being impaired by £13.2m, £12.8m of which was covered by the revaluation reserve and £0.4m charged to the Statement of Comprehensive Income for 2016/17.

Resource Outturn for the year ended 31 March 2017

A consequence of the college reclassification is that the College is required to report on its Resource Outturn to Scottish Government which is based on the government's financial year end of 31 March.

There are differences between the government accounting rules used for the Resource Outturn and the financial reporting accounting requirements used for these Financial Statements. One significant difference is the treatment of non-cash costs. Adherence to central government rules leaves the College unable to access accumulated cash reserves without the appropriate budget cover having been authorised from the Scottish Government. Any under-utilisation of allocated budget cover results in cash effectively being frozen. In order to minimise frozen cash in the College sector during the financial period being reported, the SFC granted Colleges additional budget cover up to the level of net depreciation at 31 March 17 (Scottish Government's financial year end). The net depreciation for the College was £608k. SFC authorisation was received to utilise the cash for the loan repayment and to make a donation to Forth Valley College Foundation. This prevented that cash becoming inaccessible to the College.

Spend of the College's cash budget for priorities, and impact on the operating position, is detailed below:

	31 July 2017	31 July 2016
	£000	£000
Revenue		
Estates Development Costs - New Falkirk Campus	0	470
Donation to ALF	462	0
Total impact on operating position	<u>462</u>	<u>470</u>
Capital		
Loan payments	146	143
Total Capital	<u>146</u>	<u>143</u>
Total cash budget for priorities spend	<u>608</u>	<u>613</u>

A summary of the Resource Outturn reported to SFC and Scottish Government is noted below.

Resource Outturn 2016/17	RDEL Year Ended 31 Mar 2017 £000	CDEL Year Ended 31 Mar 2017 £000
Total Income	(25,504)	(403)
Revenue Expenditure	<u>25,358</u>	<u>403</u>
Underspend on Resource Budget	<u>(146)</u>	<u>0</u>
Ringfenced RDEL		
Depreciation	<u>608</u>	
AME Expenditure	<u>4,614</u>	

The RDEL underspend of £146k is equivalent to the annual loan repayment the College has to make in relation to existing borrowings entered into prior to the reclassification as an arm's length public body. Although the repayments utilise cash they do not score against the resource outturn.

The CDEL budget was fully utilised.

Creditor Payment Performance

The College has a policy of paying suppliers within agreed terms unless the invoice is contested. Disputes and complaints are handled as quickly as possible. Every effort is made to take advantage of additional discount where this is offered for prompt payment. The College did not make any late interest payments during the year.

Standard creditor terms are set on our finance system to be 30 days and can be amended to adhere to supplier terms if authorised by Finance Team Management. Invoices are paid on a weekly basis by the due date and only if they are authorised for payment on the finance system. The average number of days taken to pay suppliers in the financial period being reported was 28 days (2015/16 - 28 days).

Sustainability Report

The College recognises that the changing climate will have far reaching effects on Scotland's economy, people and environment. Consequently, the commitment to carbon reduction remains a key strategic objective for the College, within the College mission statement of Making Learning Work.

Our vision is to lead by example in all our activities and to ensure that learners are aware of the impact their actions will have, on the environment. This commitment is supported by the College Green Sustainability Statement that is approved annually by the Chairman of the Board of Management and our College Principal.

The College has an established Sustainability Committee which performs a strategic function to set, and measure sustainability progress throughout the college. The Committee representatives agree a series of performance indicators annually, which are monitored and progressed. The Committee is led by the Associate Principal and Executive Director - Learning and Teaching.

A significant area of measurement is the College Carbon Management Plan (CMP) which was developed as a result of the College signing the Universities and Colleges Climate Commitment for Scotland (UCCCFs) in partnership with the EAUC (Environmental Association of Universities and Colleges). The CMP reflects all carbon associated with waste, fleet travel and utilities at each site. The College's estate has altered considerably since the CMP baseline year of 2008/09, with the opening of our new campus in Alloa (2011), which received an "Excellent" rating award

for the (Building Research Establishment Environmental Assessment Method) BREEAM, and new campus in Stirling (2012) which was awarded a “Very Good” Rating. The College remains on target to reduce total carbon dioxide (tCO₂) levels by 25% from the baseline figure of 2,873.62 tCO₂ by the year 2020. The figures are calculated annually, each November, in line with the Public Sector Climate Change Duties (2016) submission to Sustainable Scotland Network (SSN). Our current progress (November 2016) illustrated a 20.63% reduction in carbon from our 2008 baseline.

The College has targeted the majority of projects that have a positive carbon reduction with the lowest capital investment, however it is becoming increasingly challenging to identify further reductions without significant capital expense. The most significant project with low carbon benefits will be the fruition of the new Falkirk Campus, planned for completion in October 2019. The new Campus has been designed with an Energy Performance Certificate rating of B and a target of Very Good for the BREEAM (2014) award.

The College supports the mandatory reporting of targets made by the Scottish Government from 2016, using a specific template created by Sustainable Scotland Network (SSN) in association with the EAUC and Keep Scotland Beautiful. The College is committed to continually improve carbon reduction and monitors this annually with the review of the Carbon Management Plan and SSN reporting.

Dr Ken Thomson
Principal and Chief Executive
7 December 2017

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

Board of Management Report

Membership of the Board of Management

The Post 16 Education (Scotland) Act 2013 requires that the board of a regional College should consist of no fewer than 15, nor more than 18 members. The Board of Management members who held office during the year and up to the date of signing these financial statements were as follows:

Mr H Hall, Chair	Regional Chair	Resigned February 2017
Mr Ross Martin	Regional Chair	Appointed August 2017
Mrs A Mearns, Vice Chair	Senior Independent Member / Non-executive member	Re-appointed March 2017
Dr K Thomson	Principal	
Mr C Alexander	Non-Executive member	Re-appointed March 2017
Mrs F Campbell	Non-Executive member	Re-appointed March 2017
Mr A Carver	Non-Executive member	Re-appointed March 2017
Ms T Craggs	Non-Executive member	Appointed November 2016
Ms L Dougall	Non-Executive member	
Mr D Flynn	Non-Executive member	Appointed November 2016
Ms B Hamilton	Non- Executive member	Re-appointed March 2017
Mrs C Jack	Non-Executive member	
Mr L McCabe	Non-Executive member	
Mr K Richardson	Non-Executive member	
Mr S Tolson	Non-Executive member	
Ms A Winchester	Non-Executive member	Resigned November 2016
Mr A Buchan	Student	
Ms Amy Scobbie	Student	Elected June 2017
Ms Karen Williams	Student	Resigned December 2016
Ms Pamela Duncan	Staff	Elected August 2016
Mr S Harrison	Staff	Elected August 2016

Membership of the Senior Management Team

The SMT is responsible for the day to day management of Forth Valley College's activities and operations and consists of:

Dr K Thomson	Principal
Mr D Allison	Associate Principal & Executive Director Information Services
Mrs F Brown	Associate Principal and Executive Director Curriculum & Quality
Mr T Gorman	Associate Principal and Executive Director Estates Development
Mr A Lawson	Associate Principal and Executive Director HR & Organisational Development
Mrs A Stewart	Associate Principal and Executive Director Finance
Mrs C Walker (to April 2017)	Associate Principal and Executive Director Business Development

Conflicts of Interest procedures

Forth Valley College has comprehensive procedures for dealing with potential conflicts of interest. These include holding, and updating at least annually, a Register of Board Members Interests. The register is available to any member of the public who wishes to examine it and is available on the college website, <http://www.forthvalley.ac.uk>. Interests that must be registered, in terms of the name and nature of the

organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, and non-financial interests. Declarations by Board members of any conflicts of interest are recorded in the minutes of the appropriate Board meetings.

Personal data related incidents

Section 417 of the Companies Act 2006 requires that organisations report on personal data related incidents. In 2016/17, the College had no reported personal data incidents.

Dr Ken Thomson
Principal and Chief Executive
7 December 2017

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Statement of The Board of Management's Responsibilities

The Board of Management are required to present audited financial statements for each financial period.

In accordance with the Further and Higher Education (Scotland) Act 1992 and 2005, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial period.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period. These financial statements comply with the Accounts Direction issued by the Scottish Funding Council.

In preparing the financial statements, the Board of Management has ensured that:

- suitable accounting policies are selected and applied consistently
- judgements and estimates are made that are reasonable and prudent
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Institution will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources
- safeguard the assets of the College and prevent and detect fraud
- secure the economical, efficient and effective management of the College's resources and expenditure
- ensure sound corporate governance and proper conduct of the College's operations.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee
- a professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

In October 2010, the UK Office for National Statistics (ONS) decided to reclassify incorporated further education colleges throughout the UK so that they would be treated as part of central government for financial budgeting and reporting purposes. The UK ONS's reclassification decision is the consequence of the current level of Ministerial control and does not relate to the plans for improved governance that feature in the Post-16 Education (Scotland) Act 2013.

The implications of this are material and impact upon the ability of the College to generate and retain income, to generate and retain surpluses (reserves), to protect and use existing reserves, and to access capital funding and commercial borrowing. The use of Arm's Length Foundations on a sector wide basis to shelter on-going College reserves was approved by Scottish Government Ministers. Forth Valley College Foundation was incorporated in December 2013 and has been awarded charitable status from the Office of the Scottish Charity Regulator (OSCR).

Auditor

The Auditor General for Scotland has appointed Ernst & Young to undertake the audit for the year ended 31 July 2017.

Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Board on 7 December 2017 and signed on its behalf by:

Ross Martin
Chair

Governance Statement

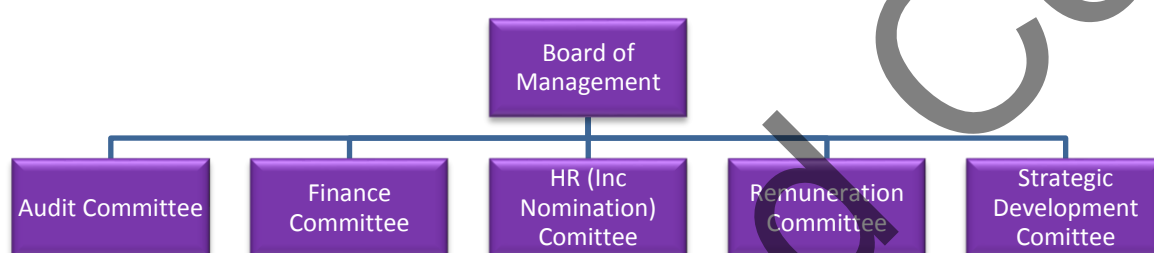
Introduction

The College is committed to exhibiting best practice in all areas of corporate governance. This summary describes the manner in which the College has applied the principles in the Code of Good Governance for Scotland's Colleges.

This governance statement is designed to supplement the information provided in the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in Forth Valley College in the year to 31 July 2017 and reports the Board's assessment of the effectiveness of these arrangements.

Governance Structure

The College has a robust and effective Board and Committee structure in place.



Additionally, in recognition of the significant developments as the Falkirk Campus Project Board progresses towards the realisation of the new Falkirk Headquarters Campus, an additional committee has been established. While the Falkirk Campus Project Board is separate from the main Board of Management structure, three non-executive Board Members serve on this Board to ensure adequate representation from the main Board of Management.

Board of Management Committees

Audit Committee

The committee met on three occasions. Its role is to contribute to good governance by providing assistance to the Board of Management on issues of compliance, risk, financial probity and the overall effectiveness of internal College control systems. The internal and external auditors normally attend meetings.

Finance Committee

The committee met on three occasions during the period. Its role is to contribute to good governance by providing independent advice to the Board of Management on the financial management of the College, providing a strategic overview of the College's financial direction while ensuring a position of financial security and that all relevant audit and legislative requirements are met.

HR Committee (Inc. Nomination Committee)

The committee met on three occasions and advises on HR strategy (including industrial relations matters), oversees the Board's health & safety responsibilities, monitors the Board's equal opportunities aspirations, and oversees the Board nominations process.

Remuneration Committee

The committee met once during this period. Its role is to provide good governance advice and assistance to the Board of Management on the remuneration of senior College staff, considering sectoral guidance and maintaining comparability with relevant external bodies.

Strategic Development Committee

The committee met on four occasions. Its role is to contribute to good governance by providing assistance to the Board of Management on the strategic direction of the College, to act as the primary linkage between the Board of Management and the Student Union Executive, and to consider matters relating to the interests of learners in the College.

Board of Management Members

Hugh Hall resigned as chair on 28 February 2017. Scottish Government approved the appointment of the vice-chair as acting chair until Scottish Ministers undertook a recruitment exercise to appoint a new Chair of the Board. Ross Martin was appointed as Chair on 1 August 2017.

During 2016/17 one non-executive Board member resigned and a recruitment process in line with the 2014 Ministerial guidance was undertaken. Following this process, the recommendations of the Board of Management were communicated to Scottish Ministers who approved the recommendation. This also resulted in the College maintaining, for the non-executive positions available, a 50-50 gender balance.

During the year 5 non-executive members became eligible for re-appointment. The Board approved the proposed re-appointments and sought Ministerial approval which was granted.

Membership now consists of 18 members as follows:

- Chair
- 12 Independent Non-executive members
- 2 Student Members
- 2 Staff Members
- Principal

There is a clear differentiation in the roles of the Chair of the Board and that of the Principal. Matters reserved to the Board of Management are set out in the Standing Orders and Operating Guidelines, the Scheme of Delegation, and under the Financial Memorandum with the Scottish Funding Council. The Board of Management is responsible for the on-going strategic direction of the College, approval of major developments and the approval of annual budgets.

Members of the Board have a collective responsibility for the proper conduct of the College's affairs. Members have full and timely access to all relevant information to enable them to perform their roles effectively. Members' roles and responsibilities are described in the Code of Good Governance for Scotland's Colleges and the Guide for Board Members in the College Sector.

Board Effectiveness

The Board of Management has adopted the Code of Good Governance for Scotland's Colleges. The code outlines the activity to be undertaken by a Board. The Board of Management has an effective mix of skills in place, supplemented by a comprehensive induction process which is further enhanced by Board training activities such as the provision of equalities training.

There are self-evaluation processes, led by the Chair and an evaluation process for the activity of the Chair led by the Vice-Chair. These offer a mechanism for members to feedback on their perceptions of the Board, their contribution and any future training needs.

An externally conducted effectiveness review was undertaken in December 2016, with the outcome being considered by the Board and then the report was published on the College's website.

Attendance

The Board of Management normally meets formally four times per year and has a number of committees which are formally constituted with terms of reference. During 2016/17 one meeting of the Audit Committee and one meeting of the Finance Committee were cancelled.

	Status	Date of Appointment/Re-Appointment	Date of Retiral/Resignation (If Applicable)	Board of Management (Three Meetings)	Audit Committee (Three Meetings)	Finance Committee (Three Meetings)	HR (Inc. Nomination) Committee (Three Meetings)	Remuneration Committee (One Meeting)	Strategic Development Committee (Four Meetings)
Number of Meetings				4	3	3	3	1	4
Mr H Hall, Chair	Regional Chair	03/03/14	28/02/17	2				1	
Mr Ross Martin	Regional Chair	01/08/17							
Mrs A Mearns, Vice Chair	Senior Non-Exec	26/03/17		3			3	1	4
Dr K Thomson	Principal	01/08/13		3					
Mr C Alexander	Non-Exec	26/03/17		2	2				
Mrs F Campbell	Non-Exec	26/03/17		4			3		3
Mr A Carver	Non-Exec	26/03/17		2		2			1
Mrs T Craggs	Non-Exec	06/12/16		3	1	1			
Ms L Dougall	Non-Exec	26/03/15		4	3			1	3
Mr D Flynn	Non-Exec	06/12/16		1			2		1
Ms B Hamilton	Non-Exec	26/03/17		3	1		3	1	
Mrs C Jack	Non-Exec	02/03/15		2		3			2
Mr L McCabe	Non-Exec	02/03/15		4		3		1	2
Mr K Richardson	Non-Exec	02/03/15		2		1			
Mr S Tolson	Non-Exec	26/03/15		2			1		
Ms A Winchester	Non-Exec	26/03/15	06/11/16	1	1				
Mr A Buchan	Student	12/06/17		3					4
Ms A Scobbie	Student	12/06/17							
Ms K Williams	Student	26/06/16	14/12/16	1					1
Mrs P Duncan	Staff	05/09/16		4		3			
Mr S Harrison	Staff	05/09/16		3					3

Assessment of corporate governance

In the opinion of the Board of Management, we can confirm that corporate governance has been exercised throughout the period in accordance with the principles of the Code of Good Governance for Scotland's Colleges, the Scottish Public Finance Manual (SPFM) and the Financial Memorandum.

One exception to this is in relation to the role of a Secretary to the Board. The Code of Good Governance states; "The board secretary may be a member of the senior management team in their board secretary capacity, but they cannot hold any other senior management team position at the same time".

The Board of Management recognises the importance of the Board Secretary being able to report directly to the Chair independently of the Principal in order to prevent any conflicts of interests, however believe that this can be achieved without the requirement to appoint a Board Secretary without other Senior Management Team responsibilities. The Board of Management have appointed the Associate Principal and Executive Director of Finance as Secretary to the Board along with the Corporate Governance & Planning Officer as Deputy Secretary to the Board, both of whom will report directly to the Chair in relation to the Board Secretary duties. The Board of Management believes any risk of non-disclosure or non-compliance not being reported to the Board of Management due to a conflict of interest is mitigated by the appointment of two individuals with direct reporting to the Chair. The Board of Management considers that governance is strengthened rather than weakened by the Associate Principal and Executive Director of Finance having a dual role within the Senior Management Team. This arrangement is not unusual in either the public or the private sector, indeed a similar practice is adopted by the Scottish Funding Council.

Estates Strategy

The Forth Valley College agreed Estates strategy comprises a vision for three new campuses. The first in Alloa, the second in Stirling and a third in Falkirk. A significant investment has already taken place in phases 1 and 2 of this strategy with Alloa and Stirling successfully completing on programme and within budget in 2011 and 2012 respectively. The new Falkirk Campus is planned to open in October 2019.

Significant progress has been made toward the realisation of the new Falkirk campus, with the approval of the Full Business Case in November 2016 and the submission of the final Decision Point 4 report to the Scottish Funding Council and Scottish Government, with approval received on 4 October 2017. Following this approval, the appointment of the main contractor Balfour Beatty occurred on 11 October 2017.

The new campus plans include servicing the current Falkirk Campus curriculum and will accommodate over 11,000 students of which almost 2,000 will be full time. The proposed New Falkirk Campus will be located on the cleared 10.87 acre Middlefield Campus site and an additional section of land (4.8 acres) to the East of this. The new facility will be 20,720 sqm and will incorporate state of the art and flexible teaching accommodation, as well as low carbon initiatives, such as Photovoltaics, a Ground Source Heat Pump system, Combined Heat and Power boilers, along with other sustainable functions required to meet the Building Research Establishment Environmental Assessment Method (BREEAM) standard.

Risk Management

The Board of Management has overall responsibility for ensuring the effective identification, mitigation and monitoring of strategic risks within the College. The Audit Committee has delegated authority from the Board of Management to approve the Risk Management Policy and to review regular reports from the College Senior Management Team regarding risk.

The College operates a Strategic Risk register which identifies the most significant risks to the College. This register is taken to every meeting of the Audit Committee for comment and challenge. It is also provided annually to the Board of Management.

The Principal is responsible for the maintenance of the College strategic risk register and for ensuring appropriate risk mitigation actions are implemented to address significant risks to College operations and strategic objectives. Senior Management Team members are responsible for establishing controls to mitigate identified risks wherever possible. This information is included on the Strategic Risk Register in summary form.

Risk Management is embedded in the operations of the College. The identification and mitigation of risk is a component in all decision making and is a standing item at all Senior Management Team, Board Committee and Board of Management meetings. The College also operates a risk management system whereby areas of significant

risk to the College have their own specific risk register. It is under this approach that an estates risk register was established to support the Falkirk campus project.

Delegation of responsibility for managing the key risks in the risk registers is essential if risk management is to be effective. The risk registers, therefore identify “owners” for each risk.

Internal Audit

The College has an internal audit service, the work of which concentrates on areas of key activities determined by an analysis of the areas of greatest risk, input from Senior Management Team and areas of significant change to operational systems/practices and in accordance with the annual internal audit plan approved by the Audit Committee. The internal auditors report to the Principal and to the Audit Committee on a regular basis and have direct access to the Chair of the Audit Committee. The internal auditors have issued an annual report which gives an opinion of the adequacy, reliability and effectiveness of the College’s internal control systems. On the basis of the work undertaken during the period the auditors have expressed an opinion that the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks and proper arrangements are in place to promote value for money and deliver best value.

Internal Control

The Board of Management is aware of the need for effective internal control and acknowledges its responsibility for such a control system to be in place. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on a framework of regular management information, financial regulations and administrative procedures.

In particular it includes:

- comprehensive budgeting systems with an annual budget approved by the Board of Management
- regular reviews by the Finance Committee of quarterly and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and non-financial performance.

Assessment of the effectiveness of internal controls

The Board of Management is of the view that there is an on-going process for identifying, evaluating and managing the College’s significant risks. This process is reviewed by the Board of Management through the Audit Committee. A formal Business Continuity Plan is maintained within the College.

For the period to 31 July 2017, the Internal Auditors reported completion of all reviews in the Audit Plan except for a Risk Workshop which was held in October 2017. Internal Audit was of the opinion that the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks and proper arrangements are in place to promote value for money and deliver best value.

The external auditors have given an unqualified audit opinion on the accounts for the period to 31 July 2017 and on the regularity of transactions reflected in the accounts. No further significant issues have been identified as part of their audit process.

On the basis of the assurances provided from the sources of assurance outlined above, I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the period ended 31 July 2017 and up to the date of approval of the annual report and financial statements.

Going Concern

The Board of Management believes that pension liabilities resulting in a net liability in the Balance Sheet can be met as these fall due from future funding. The Board of Management has no reason to believe that future support from Scottish Funding Council will not be forthcoming and on that basis these financial statements have been prepared on a going concern basis.

Approved by order of the members of the Board on 7 December 2017 and signed on its behalf by:

Ross Martin

Chair

Dr Ken Thomson

Principal and Chief Executive

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REMUNERATION AND STAFF REPORT

Remuneration Report

This report outlines the remuneration policy of Forth Valley College for the Board of Management and the Senior Management Team (SMT), and provides details of members remuneration for the year ended 31 July 2017.

Board of Management

Forth Valley College Board Members, with the exception of the Principal and Chief Executive Officer, are appointed for a fixed period, normally, four years. With the exception of the Principal and Chief Executive Officer and elected staff representatives, these members do not have contracts of service with Forth Valley College.

In February 2017, Hugh Hall resigned his position as Chair of the Board of Management. A new Chair, Ross Martin, was appointed in August 2017 by Scottish Ministers. The level of remuneration for the Chair is set by Scottish Government who informs Forth Valley College on an annual basis of any increase to be awarded.

Senior Management Team

The SMT is responsible for the day to day management of Forth Valley College's activities and operations. The Principal and Chief Executive Officer, Ken Thomson, is a member of both the Board and the SMT.

The Principal and Chief Executive Officer and other SMT members are on standard Forth Valley College contracts of employment. Their contracts provide for a notice period of 3 months. For 2016/17 there was no bonus scheme in operation in Forth Valley College.

If an SMT member's employment with Forth Valley College is terminated on the grounds of redundancy or in the interests of the efficiency of the organisation, severance payments will apply based on age and on length of service and are subject to approval by the Scottish Funding Council. This basis is identical to that applied for all other employees.

In April 2017, the Associate Principal and Executive Director Business Development left her post. Following consideration, it was decided not to fill this vacancy within the Senior Management Team, realising a saving for the College.

Remuneration Committee

The Remuneration Committee determines the policy for the remuneration of the members of the SMT, including the Principal and Chief Executive Officer and other such members of the management team as it is designated by Forth Valley College to consider. This policy is set within the context of the applicable Government guidelines. With input from the Chair and Principal and Chief Executive Officer it determines the total individual remuneration package of members of the SMT.

The membership of the Remuneration Committee is made up of the Chair of the Board of Management plus the Chairs of each of the Board Sub Committees. All members have completed the mandatory online College Development Network Remuneration Committee training.

Senior Management Team Remuneration

As part of Forth Valley College's performance management system, each SMT member agrees with the Principal and Chief Executive Officer their personal performance objectives.

Forth Valley College aims to ensure that the remuneration packages offered to SMT:

- enable Forth Valley College to attract, retain and motivate high calibre leaders
- remunerate individuals fairly for individual responsibility and contribution
- take account of salary policy within the rest of Forth Valley College and the relationship that should exist between the remuneration of the Senior Management Team and that of other employees.

Basic salaries are reviewed annually from 1 August. Salary levels are established after taking into account external market levels and internal comparisons as well as individual responsibilities and performance. All senior posts are evaluated as part of our job evaluation process to ensure they reflect the responsibility and accountability of the role and are graded appropriately. The College's Job Evaluation system and processes are externally audited on an annual basis. Salary payments are made monthly.

SMT members are all members of either the Scottish Teachers' Superannuation Scheme (STSS) or the Local Government Pension Scheme (LGPS). As ordinary members, they contribute a rate of pensionable salary dependant on salary. In the financial period being reported the rates were between 9.2% to 12% and Forth Valley College contributed 17.2% of the employees' pensionable salary to the SPPA and 17.9% to the LGPS along with an additional flat fee for past pension costs. These schemes are defined benefit schemes. The LGPS scheme provides benefits at a normal retirement age of 65 for all LGPS benefits paid prior to 1 April 2015. For all LGPS benefits paid after 1 April 2015 and for STSS, benefits are provided at the state pension age. The pension benefits consist of an annual pension, based on a final pensionable salary calculation up to 31 March 2015 and a career average pensionable salary with effect from 1 April 2015. For members who joined before 1 April 2007 for STSS and 1 April 2009 for LGPS a tax free lump sum will be paid automatically.

Remuneration of the Principal and other Senior Management Team who served during the year to 31 July 2017, including salary, pension benefits and other allowances was:

	Year Ended 31 July 2017			Year Ended 31 July 2016		
	Salary	Pension Benefit	Total	Salary	Pension Benefit	Total
	£000	£000	£000	£000	£000	£000
Ken Thomson	120 - 125	80 - 85	205 - 210	115 - 120	55 - 60	170 - 175
Andy Lawson	100 - 105	55 - 60	160 - 165	95 - 100	35 - 40	135 - 140
Tom Gorman	95 - 100	50 - 55	145 - 150	90 - 95	50 - 55	140 - 145
Alison Stewart	85 - 90	50 - 55	135 - 140	80 - 85	30 - 35	110 - 115
David Allison	80 - 85	75 - 80	155 - 160	75 - 80	35 - 40	110 - 115
Colette Walker	65 - 70	10 - 15	75 - 80	75 - 80	30 - 35	110 - 115
Fiona Brown	70 - 75	50 - 55	125 - 130	65 - 70	25 - 30	95 - 100

Salary

Salary information includes gross salary, overtime and allowances to the extent that they are subject to UK taxation. This report is based on accrued payments made by the College and thus recorded in these accounts.

Chair Remuneration

For the year to July 2017 the Chairman was entitled to claim remuneration of £200 for every 7.5 hours up to a maximum total fee of £20,800. The Chair is not entitled to a pension in respect of their office.

Median Pay Multiples

The relationship between the remuneration of the highest paid member of the Senior Management Team and the median remuneration of the employees of Forth Valley College is as follows:

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£	£
Annualised remuneration of the highest paid member of the Senior Management Team	123,792	116,115
Median Remuneration of Forth Valley College Employees	33,894	30,042
Remuneration Ratio	1 : 3.65	1 : 3.87

The median remuneration of Forth Valley College's employees is based upon the annualised full-time equivalent salary of the employees at 31 July.

Including severance payments, no employee (2016: no employees) received remuneration in excess of the highest paid member of the Senior Management Team.

Pension Benefits

Pension benefits are provided to the Senior Management Team on the same basis as all other staff. The accrued retirement benefits of the Senior Management Team for the year to 31 July 2017 are:

	Accrued Pension at pension age as at 31 July 2017 and related lump sum	Real increase in Pension and related lump sum at pension age	Cash Equivalent Transfer Value		
			At 31 July 2017	At 31 July 2016	Increase net of members contributions
	£000	£000	£000	£000	£000
Ken Thomson	45 - 50 plus lump sum of 145 - 150	2.5 - 5.0 plus lump sum of 12.5 - 15	1,050	932	102
Andy Lawson	30 - 35 plus lump sum of 100 - 105	2.5 - 5.0 plus lump sum of 7.5 - 10.0	826	748	66
Tom Gorman	15 - 20 plus lump sum of 20 - 25	2.5 - 5.0 plus lump sum of 0 - 2.5	389	334	46
Alison Stewart	10 - 15 plus lump sum of 0 - 5	2.5 - 5.0 plus lump sum of 0 - 2.5	167	135	24
David Allison	25 - 30 plus lump sum of 50 - 55	2.5 - 5.0 plus lump sum of 2.5 - 5.0	439	387	44
Colette Walker	0 - 5 plus lump sum of 0 - 5	0 - 2.5 plus lump sum of 0 - 2.5	54	37	11
Fiona Brown	20 - 25 plus lump sum of 60 - 65	2.5 - 5.0 plus lump sum of 7.5 - 10.0	477	405	64

The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The value of the accrued pension benefits has been calculated on the basis of the age

at which the person will first become entitled to receive pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlements into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service and not just their current appointment.

In considering the accrued pension benefits figure the following contextual information should be taken into account:

- the figures for pension lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement
- the accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

Real Increases in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff Report

As at 31 July 2017 there were 625 staff in post. The split across gender and business area is detailed in the table below.

Employees	Male	Female	Total
Senior Management Team	4	2	6
Heads of Teaching / Service	7	8	15
Academic Staff	149	142	291
Support Staff	113	200	313
	<u>273</u>	<u>352</u>	<u>625</u>

The following table shows the number of inward seconded and agency staff employed by the College during the year:

	Year Ended 31 July 2017	Year Ended 31 July 2017	Year Ended 31 July 2017	Period Ended 31 July 2016
Seconded and Agency Staff	Inward secondees	Agency staff	inward secondees and agency staff	Total of inward secondees and agency staff
	£000	£000	£000	£000
Total costs	91	89	180	135
Number of staff				
Academic/ Teaching Departments & Services	2	2	2	2
Administration and Central Services	<u>2</u>	<u>12</u>	<u>14</u>	<u>10</u>
	<u>2</u>	<u>14</u>	<u>16</u>	<u>12</u>

Attendance Management

Although the College recognises that employees need to be properly supported during absences, our priority is to meet our operational objectives. As a result, we take distinct steps to balance the needs of the individual with the needs of the organisation to effectively manage sickness absence. To achieve this balance, working with our

Occupational Health advisors, we take a positive and pro-active approach to attendance management. We also offer a range of services that staff can access to help them with their own wellbeing.

These include:

- advising all employees and line managers of their roles and responsibilities in managing absence through appropriate training, guidance and support
- monitoring and analysing absence and providing useful Management Information
- supporting employees with regular short-term absence to improve their level of attendance
- assisting employees on long-term absence to return to work successfully via individually tailored return to work plans
- allowing staff to self-refer to our Occupational Health Advisor on a confidential basis
- offering sessions to staff to help them with their own wellbeing at work, including those on managing stress or mindfulness
- providing access to a confidential Employee Assistance scheme to provide advice or counselling when dealing with issues of a personal, financial or legal matter.

In 2016/17, an average of 8 days (including leavers) was lost per staff member compared to 9.87 days from 2015/16. The 2016/17 average equates to 3% overall absence rate for the year.

Equality, Diversity and Inclusion

FVC is committed to ensuring that all staff and students can work or study in an environment that is free from discrimination, harassment and victimisation and that everyone can progress equally.

We are guided by the Equality Act 2010 which sets out our responsibilities to:

- eliminate discrimination, harassment and victimisation
- advance equality of opportunity
- promote good relations

This is important for all staff and students. In particular, we ensure equality in regards to protected characteristics.

We comply with the Equality Act by demonstrating our activities through a range of reports and information: Equality Mainstreaming report; Equality Outcomes progress report; Equalities Policy and Gender Pay Gap & Equal Pay information. We are committed to achieving our Equality Outcomes and strive to embed actions for equality in our strategic and operational planning processes.

FVC also now has an Access and Inclusion Strategy, part of our current Regional Outcome Agreement with the Scottish Funding Council. This outlines our broad range of support available for students and identifies areas for enhancement. In July 2017, we also published our three-year Gender Action Plan, which outlined our aims in relation to gender representation in College programmes. SFC will monitor these and implementation plans will be in place for AY 2017/18 to devolve responsibility for the actions across College.

The reports outlined above are at: <https://www.forthvalley.ac.uk/about-us/equality-diversity/>

Compensation for loss of office

No compensation was paid during 2016/17.

Dr Ken Thomson
Principal and Chief Executive
7 December 2017

AUDIT REPORT

Independent auditor's report to the members of the Board of Management of Forth Valley College, the Auditor General for Scotland and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Forth Valley College for the year ended 31 July 2017 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2017 and of its deficit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK), our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on regularity of expenditure and income**Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements**Opinions on other prescribed matters**

We are required by the Auditor General for Scotland to express an opinion on the following matters.

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, we have not identified material misstatements in the Performance Report or Governance Statement.

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- adequate accounting records have not been kept, or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records, or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Stephen Reid, (for and on behalf of Ernst & Young LLP)

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EB
7 December 2017

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

FINANCIAL STATEMENTS

Statement of Comprehensive Income for the year ended 31 July 2017¹

INCOME	Note	Year Ended 31 July 2017 £000	Year Ended 31 July 2016 £000
Scottish Funding Council grants	2	23,809	23,188
Tuition fees and education contracts	3	7,746	8,214
Other grant income	4	2,082	281
Other operating income	5	1,251	1,455
Investment income	6	6	14
Donation from FVC Foundation	4	131	370
Total Income		35,025	33,522
EXPENDITURE			
Staff costs	8	23,864	23,467
Pension provision charge	10	384	547
Other operating expenses	11	6,236	6,543
Estates Development Costs		1,805	1,739
Depreciation (including impairment)	15	2,566	2,194
Interest and other finance costs	12	333	1,117
Donation to FVC Foundation	13	579	0
Total Expenditure		35,767	35,607
Deficit before other comprehensive income		(742)	(2,085)
Other comprehensive income			
Actuarial loss in respect of pension scheme		(1,322)	(2,498)
Unrealised deficit on revaluation of land and buildings	15	(12,768)	(1,650)
Total comprehensive income for the year		(14,832)	(6,233)
Represented by:			
Unrestricted comprehensive income for the year		(1,562)	(4,081)
Revaluation reserve comprehensive income for the year		(13,270)	(2,152)
		(14,832)	(6,233)

All items of income and expenditure are in respect of continuing activities.

¹ The Statement of Comprehensive Income is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 36 provides details of the adjusted operating position on a Central Government accounting basis.

Statement of Changes in Reserves for the year ended 31 July 2017

	Income and expenditure account Unrestricted	Revaluation reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2015	(17,076)	20,715	3,639
Deficit from the income and expenditure statement	(2,085)		(2,085)
Other comprehensive income	(2,498)	(1,650)	(4,148)
Transfers between revaluation and income and expenditure reserve	502	(502)	0
Total comprehensive income for the period	(4,081)	(2,152)	(6,233)
Balance at 1 August 2016	(21,158)	18,563	(2,595)
Deficit from the income and expenditure statement	(742)		(742)
Other comprehensive income	(1,322)	(12,768)	(14,090)
Transfers between revaluation and income and expenditure reserve	502	(502)	0
Total comprehensive income for the year	(1,562)	(13,270)	(14,832)
Balance at 31 July 2017	(22,720)	5,293	(17,427)

Balance Sheet as at 31 July 2017

	Note	As at 31 July 2017 £000	As at 31 July 2016 £000
Non Current Assets			
Tangible fixed assets	15	43,722	57,405
Current assets			
Stocks		25	30
Trade debtors and other receivables	16	1,703	1,620
Cash at bank and in hand	21	2,610	926
Total current assets		<u>4,338</u>	2,576
Less: Creditors - amounts falling due within one year	17	5,735	3,936
Net current liabilities		<u>(1,397)</u>	<u>(1,360)</u>
Total assets less current liabilities		42,325	56,045
Creditors - amounts falling due after more than one year	18	33,220	34,519
Provisions			
STSS early retirement provision	19	7,305	7,317
LGPS pension provision	19, 23	19,227	16,804
		<u>26,532</u>	<u>24,121</u>
Total Net Liabilities		<u>(17,427)</u>	<u>(2,595)</u>
Unrestricted Reserves			
Income and expenditure reserve - unrestricted		(22,720)	(21,158)
Revaluation reserve		5,293	18,563
Total Reserves		<u>(17,427)</u>	<u>(2,595)</u>

The financial statements on pages 33 to 53 were approved by the Board of Management on 7 December 2017 and were signed on its behalf on that date by:

Ross Martin
Chairman

Dr Ken Thomson
Principal and Chief Executive

Cash Flow Statement for the year ended 31 July 2017

	Note	Year Ended 31 July 2017 £000	Year Ended 31 July 2016 £000
Cash flow from operating activities			
Deficit for the year		(742)	(2,085)
Adjustment for non-cash items			
Depreciation	15	2,566	2,194
Decrease/(Increase) in stock		5	(3)
Increase in debtors	16	(83)	(211)
Increase/(Decrease) in creditors	17, 18	1,748	(324)
(Decrease)/Increase in pension provision	19	(12)	148
Pension Costs	23	689	399
Adjustment for investing or financing activities			
Investment income	6	(6)	(14)
Interest payable	12	333	1,117
Capital grant income	2	(1,530)	(1,586)
Net cash inflow/(outflow) from operating activities		2,968	(365)
Cash flows from investing activities			
Capital grants receipts		690	155
Investment income	6	6	14
Payments made to acquire fixed assets	15	(1,651)	(155)
		(955)	14
Cash flows from financing activities			
Interest paid	12	(178)	(186)
Repayments of amounts borrowed		(151)	(146)
		(329)	(332)
Increase/(Decrease) in cash and cash equivalents in the year			
		1,684	(683)
Cash and cash equivalents at beginning of the year		926	1,609
Cash and cash equivalents at end of the year		2,610	926

Notes to the Financial Statements

1. 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 (FRM) 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.

Going Concern

The Board of Forth Valley College has no reason to believe that future funding will not be forthcoming. It has accordingly been considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

FRS 102

The accounts have been prepared incorporating the requirements of the accounting standard FRS 102.

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 have been valued on the basis of Open Market value.

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 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 £10k per individual item or grouped items is written off to the Statement of Comprehensive Income 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 Income and Expenditure Account together with any surplus or deficit on disposal.

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, 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.

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
2 Scottish Funding grants		
FE recurrent grant (including fee waiver)	20,143	19,767
Childcare funds	552	646
SFC deferred income	1,530	1,586
Scottish Funding Council maintenance grant	961	393
Other Scottish Funding Council grants	623	796
Total	23,809	23,188
3 Tuition fees and education contracts		
Further education fees - UK & EU Students	114	130
Higher education fees	1,554	1,532
Skills Development Scotland Income	1,075	993
Education contracts	1,751	1,900
Other contracts	3,252	3,659
	7,746	8,214
4 Other grant income		
Forth Valley College Foundation	131	370
Other grants	2,082	281
Total	2,213	651
5 Other operating income		
Residences, catering and conferences	767	908
Other income-generating activities	95	93
Other income	389	454
Total	1,251	1,455
6 Investment income		
Other interest receivable	6	14
7 Donations		
There were no donations during 2016/17.		

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
8 Staff costs		
Salaries	18,408	18,614
Social security costs	1,744	1,485
Other pension costs (including FRS 102 adjustment of £689k); (2015/16: £399k)	3,712	3,368
Total	23,864	23,467
Academic/ Teaching Departments	14,420	14,330
Academic/ Teaching Services	3,252	3,156
Administration and Central Services	3,870	3,307
Premises	668	628
Other expenditure	443	356
Catering and Residences	356	411
Modern Apprentice Trainees	855	1,279
Total	23,864	23,467

Compensation for loss of office payable to a senior post-holder:

No senior post holder left office during the year.

The average number of full time equivalent employees, including higher paid employees, during the period was:

	No.	No.
Senior management	7	7
Academic/ Teaching Departments	267	262
Academic/ Teaching services, Admin and central services	246	232
Premises	12	13
Catering	18	18
Modern Apprentice Trainees	56	108
Total	606	640
Analysed as:		
Staff on permanent contracts	571	606
Staff on temporary contracts	35	34
	606	640

The number of staff, including senior post-holders and the Principal, having responsibility for planning, directing and controlling the activities of the College, and who received emoluments including benefits in kind where appropriate, excluding pension contributions, were as follows:

	2017	2017	2016	2016
	Senior post-holder No.	Other members of staff No.	Senior post-holder No.	Other members of staff No.
£50,001 to £60,000 per annum	0	8	0	8
£60,001 to £70,000 per annum	1	2	1	1
£70,001 to £80,000 per annum	1	0	2	0
£80,001 to £90,000 per annum	2	0	1	0
£90,001 to £100,000 per annum	1	0	2	0
£100,001 to £110,000 per annum	1	0	0	0
£110,001 to £120,000 per annum	0	0	1	0
£120,001 to £130,000 per annum	1	0	0	0

	Year Ended 31 July 2017	Year Ended 31 July 2016
9 Senior post-holders' emoluments	No.	No.

The number of senior post-holders that form the senior management team, including the Principal

	7	7
--	---	---

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
Senior post-holders' emoluments are made up as follows:		
Salaries and benefits	634	611
Employer's Pension contributions	111	107
Total emoluments	745	718

The above emoluments include amounts payable to the Principal, the highest paid senior post-holder, of:

Salary	124	116
Benefits in kind	0	0
	<u>124</u>	<u>116</u>
Pension contributions	<u>21</u>	<u>20</u>

The Principal and two other senior post-holders were members of the Scottish Public Pensions Agency and the other four senior post-holders were members of the Local Government Pension Scheme. All pension contributions were paid at the same rate as for other members of staff.

The Chair of the Board of Management was entitled to claim remuneration of £21k in the financial period, £19k of which was paid to Hugh Hall following his resignation in February 2017 and £2k was accrued for fees to the end of July 2017. Other members of the Board of Management, other than the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
10 Pension Provision Charge		
Increase due to revaluation of pension liability	214	296
Interest	170	251
	<u>384</u>	<u>547</u>

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
11 Other operating expenses		
Teaching departments	1,518	1,676
Administration and central services	1,368	1,331
Premises costs	1,356	1,288
Planned maintenance	325	299
Other employee related costs	388	420
Agency staff costs	89	70
Other income generating activities	229	321
Residences, catering and conferences	412	491
Childcare	551	647
Total	6,236	6,543
Other operating costs include:		
Auditors' remuneration		
- external audit of the financial statements	32	26
- internal audit services	14	17
- external auditors other services	0	4
Hire machinery - operating leases	81	126
Hire of premises - operating leases	56	70
	183	243
12 Interest and other finance costs		
Loan interest	178	186
Decrease in fair value of derivatives	(257)	441
Pension finance costs (note 23)	412	490
Total	333	1,117
13 Forth Valley College Foundation		
Donation to Forth Valley College Foundation	579	0

14 Taxation

The Board does not consider that the College was liable for any corporation tax arising out of its activities during the period.

15 Tangible Fixed Assets

Land and buildings were revalued at 31 July 2015 by DM Hall, Chartered Surveyors, in the capacity of independent valuer and in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. As the majority of the College's buildings are specialised buildings, open market value is not an appropriate basis of valuation. Accordingly, Land and buildings are valued on the basis of depreciated replacement cost with the exception of the land at Branshill, Alloa and the Middlefield site at Falkirk, which are valued on the basis of Open Market value. Land is not depreciated and buildings are depreciated over their estimated life as identified by the valuer.

On 4 October 2017, final Ministerial approval was granted for the construction of the new Falkirk campus on the Middlefield site. Accordingly, a valuation was sought for the existing Falkirk campus on Grangemouth Road, which resulted in the buildings being impaired by £13.2m, £12.8m of which was covered by the revaluation reserve and £0.4m charged to the Statement of Comprehensive Income for 2016/17.

	Land and Buildings	Plant and Equipment	Total
	£000	£000	£000
Cost or valuation			
At 1 August 2016	58,446	4,838	63,284
Revaluation	(12,768)	0	(12,768)
Additions	1,167	484	1,651
At 31 July 2017	46,845	5,322	52,167
Depreciation			
At 1 August 2016	1,759	4,120	5,879
Charge for the year	1,772	379	2,151
Impairment	415		415
At 31 July 2017	3,946	4,499	8,445
 Net Book Values at 31 July 2016	 <u>56,687</u>	 <u>718</u>	 <u>57,405</u>
 Net Book Value at 31 July 2017	 <u>42,899</u>	 <u>823</u>	 <u>43,722</u>

Land and buildings with a net book value of £42m have been funded from either local authority sources or from Scottish Funding Council capital grants. These assets may not be disposed of without the prior approval of the Scottish Funding Council and the College may have to return all or part of the sale proceeds to the Scottish Funding Council.

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
16 Trade debtors and other receivables		
Amounts falling due within one year:		
Trade debtors - net of provision for doubtful debts	572	448
Prepayments and accrued income	1,131	1,172
	<u>1,703</u>	<u>1,620</u>
17 Creditors: Amounts falling due within one year		
Trade creditors	633	251
Other taxation and social security	521	505
Accruals and deferred income	2,440	1,498
Loan Repayment	160	151
Other creditors	520	112
Deferred capital grant	1,461	1,419
	<u>5,735</u>	<u>3,936</u>
Deferred income		
Included with accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met:		
Grant income	115	66
Other income	214	218
	<u>329</u>	<u>284</u>

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
18 Creditors: Amounts falling due after one year		
Deferred Income		
Secured/Unsecured Loan	3,904	4,064
Deferred capital grant	28,730	29,612
Interest rate swap	586	843
	<u>33,220</u>	<u>34,519</u>
Analysis of secured and unsecured loans		
Repayable within one year	160	151
Repayable between one and two years	167	160
Repayable between two and five years	553	574
Repayable over five years	3,184	3,331
	<u>4,064</u>	<u>4,216</u>

The term loan is a 29 year loan from Barclays, taken out 30 September 2010. The first drawdown against the facility was in 2011/12. The College has an interest rates swap at 31 July 2017 of £4.1m (July 16: £4.2m) at a fixed rate of 4.3% which terminates on 30 July 2029. In the 12 month period to 31 July 2017, the College repaid £151k (2016: £146k) of the loan principal.

	STSS Early Retirement	LGPS Pension	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000	£000	£000
19 Provisions for liabilities and charges				
At 1 August 2016	7,317	16,804	24,121	20,585
Utilised in year	(396)	(1,479)	(1,875)	(1,800)
Additions in 2016/17		2,168	2,168	1,801
Revaluation adjustment	214	1,322	1,536	2,794
Interest charged	170	412	582	741
At 31 July 2017	<u>7,305</u>	<u>19,227</u>	<u>26,532</u>	<u>24,121</u>

The STSS early retirement provision above is in respect of future pension liabilities arising from early retirements. The value of the provision is based on a valuation at 31 July 2017 performed by Hymans Robertson, an independent firm of actuaries.

The LGPS pension provision relates to the liability under the College's membership of the Local Government Pension Scheme. Further details are provided at note 23.

20 Restricted Reserves

The college has no restricted reserves as at 31 July 2017

	As at 31 July 2016	Cash	As at 31 July 2017
	£000	£000	£000
21 Cash and cash equivalents			
Cash and cash equivalents	926	1,684	<u>2,610</u>

	Equipment	Property	Year Ended 31 July 2017 Total	Year Ended 31 July 2016 Total
	£000	£000	£000	£000
22 Lease commitments				
Payable during the year	81	56	137	196
Future minimum lease payments due:				
Not later than 1 year	85	23	108	109
Later than 1 year and not later than 5 years	247	0	247	267
Later than 5 years	0	0	0	0
Total lease payments due	332	23	355	376

23 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS) and the Local Government Pension Scheme (LGPS).

	Year Ended 31 July 2017 Total	Year Ended 31 July 2016 Total
	£000	£000
The total pension costs for the institution was :		
Contribution to STSS	1,572	1,567
Contribution to LGPS	1,451	1,402
Pension costs (as a result of FRS 102)	689	399
Total pension cost (Note 8)	3,712	3,368
Employer contribution rates		
STSS	17.2%	17.2%
LGPS	17.9%	17.9%

The Scottish Teachers' Superannuation Scheme

Forth Valley College participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The valuation as at 31 March 2016 will set contribution rates from 1 April 2019.

Forth Valley College has no liability for other employer's obligations to the multi-employer scheme.

As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where Forth Valley College is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay. This increased to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employer's pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employer's contribution rate.

The total employer contributions received for the Scottish Teachers' scheme in the year to 31 March 2015 were £350.7million as per the Scottish Public Pensions Agency website. Forth Valley College's level of participation in the scheme is 0.5% based on the proportion of the employer contributions paid in 2016/17.

The Local Government Pension Scheme

The Falkirk Council Pension Fund for non-academic employees is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the period ended 31 July 2017 was £1,886k of which employer's contributions totalled £1,451k and employee's contributions totalled £435k. The agreed contribution rates are 17.9% for employers and between 5.5% and 12% for employees.

The following information is based upon a full actuarial valuation of the fund at 31 March 2014 by a qualified independent actuary, rolled forward to 31 July 2016 using approximation methods which allow for changes in financial assumptions, additional benefits, cash flows and actual pension increase orders.

Principal Actuarial assumptions

Life expectancy is based on the Vita Curves mortality tables with some adjustments. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Male years	Female years
Current pensioners	22.1 years	23.8 years
Future pensioners	24.3 years	26.3 years
	As at 31 July 2017	As at 31 July 2016
Pension increase rate	2.5%	1.9%
Salary increase rate	4.0%	3.4%
Discount rate	2.7%	2.4%

The assets of the scheme and the expected rates of return were:

	Split of investments 31 July 2017	Split of investments 31 July 2016
Equities	65%	65%
Bonds	23%	24%
Property	6%	7%
Cash	6%	4%

The following information is in relation to the Statement of Comprehensive Income:

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
Comprehensive Income and Expenditure Statement		
Current service cost	2,168	1,801
Interest cost	1,216	1,527
Interest income on plan assets	(804)	(1,037)
Total	2,580	2,291
Reconciliation of present value of defined benefit obligations		
Opening defined benefit obligations	49,874	41,748
Current service cost	2,168	1,801
Interest cost	1,216	1,527
Contributions by members	435	422
Remeasurements		
- change in financial assumptions	3,782	5,687
- other experience	9	(459)
Benefits paid	(934)	(824)
Unfunded benefits paid	(28)	(28)
Closing defined benefits obligation	56,522	49,874
Reconciliation of the movements in the fair value of the plan assets		
Opening fair value of the plan assets	33,070	28,331
Interest income on plan assets	804	1,037
Remeasurements		
- return on plan assets excluding the amount included in the net interest	2,469	2,730
Contributions by members	435	422
Contributions by employer	1,451	1,374
Contributions in respect of unfunded benefits	28	28
Benefits paid	(934)	(824)
Unfunded benefits paid	(28)	(28)
Closing fair value of the plan assets	37,295	33,070
The underlying net liability for retirement benefits attributable to the College at 31 July	19,227	16,804

Analysis of projected amount to be charged to operating result for the year to 31 July 2018

	Year Ended 31 July 2018
	£000
Projected current service cost	2,375
Interest on obligation	1,743
Interest income on plan assets	(1,020)
Total	3,098

24 Related Party Transactions

The College's board members are the trustees for charitable law purposes. Due to the nature of the College's operations and the composition of its Board of Management being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have a material interest are conducted at arm's length and in accordance with normal project and procurement procedures.

During the period under review, transactions with bodies in which a member of the Board of Management has an interest and which, in aggregate, exceeded £5k are noted below:

Member	Organisation	Contract	College Sales	College Purchases
			£000	£000
Mr K Thomson	Historic Environment Scotland	Educational	61	0
Mr K Thomson	Ceteris	Educational	0	7
Mr C Alexander	BP Oil Exploration Ltd	Educational	445	0
Ms T Craggs	Historic Environment Scotland	Educational	61	0
Miss L Dougall	University of Strathclyde	Educational	49	0
Mr L McCabe	University of Stirling	Educational	1,179	8
Mr L McCabe	APUC	Educational	0	84

At 31 July 2017 the following balances existed which were greater than £5k, for the organisations noted above:

Organisation	Due to the College	Due from the College
	£000	£000
University of Stirling	97	0
BP Oil Exploration	26	0
	<u>123</u>	<u>0</u>

The College had transactions during the year, or worked in partnership with, the following bodies in which members of the Board of Management hold, or held, official positions.

Member	Organisation	Post
Miss L Dougall	University of Strathclyde	Faculty Manager
Mrs C Jack	Scottish Power Energy Networks	Head of Delivery (Central & Fife)
Mr L McCabe	University of Stirling	Director of Finance
Mr L McCabe	Advanced Procurement for Universities and Colleges	Director of APUC Ltd
Ms T Craggs	Historic Environment Scotland	Board Member
Mr C Alexander	BP Oil Exploration Ltd	Reliability and Maintenance Manager
Mr K Thomson	Historic Environment Scotland	Board Member
Mr K Thomson	Ceteris	Board Member

25 Financial Instruments

Financial assets and liabilities are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the assumption that the fair value of trade and other receivables (note 16) and trade creditors (note 17) is taken to be the invoiced or billed amount.

Liquidity risk – The College uses an interest rate swap to adjust interest rate exposure in order to guarantee fixed interest payments for a bank loan (note where payments are variable and hence exposed to interest rate movements). The swap has a fixed rate of 4.3% and the fair value as at July 2017 was £586K (2016: £843k). The swap is due to terminate on 30 July 2029. The term loan is a 29 year loan from Barclays, taken out 30 September 2010. The first drawdown against the facility was in 2011/12. In the year to 31 July 2017 the college repaid £151k of the loan principal. A covenant was arranged as part of the original loan agreement.

	FE Bursary	EMA's	Other	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000	£000	£000	£000
26 FE Bursary and other Student Support Funds					
Balance brought forward	0	0	0	0	252
Allocation received in year	3,202	211	249	3,662	3,199
	<u>3,202</u>	<u>211</u>	<u>249</u>	<u>3,662</u>	<u>3,451</u>
Expenditure	(2,960)	(211)	(236)	(3,407)	(3,451)
Balance carried forward	<u>242</u>	<u>0</u>	<u>13</u>	<u>255</u>	<u>0</u>
Represented by:					
Repayable to Funding Council as Clawback	242	0	13	255	0
	<u>242</u>	<u>0</u>	<u>13</u>	<u>255</u>	<u>0</u>

FE Bursary and Student Support Fund grants are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
27 Childcare Funds		
Balance brought forward	0	13
Allocation received in year	625	633
	<u>625</u>	<u>646</u>
Expenditure	(551)	(646)
Balance carried forward	<u>74</u>	<u>0</u>
Represented by:		
Repayable to Funding Council as Clawback	74	0
	<u>74</u>	<u>0</u>

Childcare Fund transactions are included within the College Income & Expenditure account in accordance with the Accounts Direction issued by the Scottish Funding Council.

	Year Ended 31 July 2017	Year Ended 31 July 2016
	£000	£000
28 HE Discretionary		
Balance brought forward	1	1
Allocation received in year	157	127
	<u>158</u>	<u>128</u>
Expenditure	(153)	(126)
Repayable to SAAS as Clawback	(5)	(1)
Balance carried forward	<u>0</u>	<u>1</u>
Represented by:		
Repayable to SAAS as Clawback	5	1
	<u>5</u>	<u>1</u>

33 Capital Commitments

As a result of the approval of the New Falkirk Campus, there is a contracted capital commitment of £65m for the construction works for the New Campus for which no provision has been made.

34 Contingent Liabilities

The college has no contingent liabilities at 31 July 2017

35 Post Balance Sheet Events

Scottish Ministers approved the development of the New Falkirk Campus on the 4 October 2017. The existing Falkirk campus has been impaired to reflect the decision made to dispose of the asset in 2 years' time on the completion of the New Falkirk campus.

36 Non-cash allocation

Deficit before other gains and losses	(742)	(2,085)
Non-cash allocation for depreciation (net of deferred capital grant)	608	613
Operating deficit on Central Government accounting basis	(134)	(1,472)

Following reclassification, colleges received additional non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. As a result, colleges show a deficit equivalent to net depreciation (where funds are spent on revenue items) in order to meet Government accounting rules and the requirement to spend the entire cash allocation.

Under the FE/HE SORP, the college recorded an operating deficit of £742k for the year ended 31 July 2017. After taking account of the Government non-cash budget, the college shows an "adjusted" deficit of £134k on a Central Government accounting basis.

37 Accounting estimates and judgements

During financial year 2017/18 there will be formal revaluations obtained for the following areas which may cause material adjustments to the carrying values, but which are non-cash items:

- Interest rate risk - the College is exposed to interest rate movements on the loan and as a result entered into a swap arrangement when the loan was agreed. As a complex financial instrument the swap is being accounted for at fair value at each year end. In the current market environment the fair value of the swap agreement is a liability to the College, as assessed by the bank and confirmed as reasonable through an independent assessment. The interest rate swap fair value was a liability at 31 July 2017 but if the LIBOR interest rates and other market factors change going forward there is the potential for the fair value of the swap to be assessed as an asset for the College rather than a liability, or for the liability to increase
- LGPS Pension liability - the College's participation in the Local Government Pension Scheme requires the funding of liabilities that may stretch out 60-70 years based on the working lives of active members and period during which pensions are in payment. During these periods there will be diverse economic cycles, varying levels of investment return and changes in mortality rates. The key assumptions that impact on the net pension liability in future are set out within note 23
- STSS Early Retirement provision. The College has a provision for staff who had early retirement. The amount of this liability varies based on a number of factors, but most significantly on the discount rate applied by the actuary. The key assumptions used in the valuation are the same as for the LGPS (as set out in note 23).

The following are other areas where there is significant estimates or judgements which affect the financial statements:

- Depreciation - depreciation rates have been set for the Falkirk, Alloa and Stirling campuses based on the recommendations of estimated useful lives by valuers.
- LGPS - Cash payments - all of the factors set out above regarding the LGPS could impact on the College's Cash flow position as they could require the actuary to set a revised employer contribution rate having undertaken the three yearly valuation of the pension fund. Whilst there is always an element of uncertainty as to the extent of any change in the contribution rate, the actuary is obliged to have regard to the Fund's Funding Strategy which is to take a prudent long term view of liabilities and maintain as constant an employer contribution rate as possible.

Appendix 1 Accounts Direction from Scottish Funding Council

1. It is the Scottish Funding Council's direction that colleges comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
2. Colleges must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).
3. Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2016/17 (FReM) where applicable.
4. Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2017.
5. The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body
6. Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
30 June 2017

Forth Valley College

Year ended 31 July 2017

Annual Audit Report - draft

Audit Committee – 23 November 2017

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Forth Valley College (the College) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the College and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Purpose of this report

In accordance with section 21 of the Public Finance and Accountability (Scotland) Act 2000, the Auditor General for Scotland appointed EY as the external auditor of Forth Valley College (the College) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the College and the Auditor General for Scotland, and presented to both College management and those charged with governance, identified as being the Board and the College's Audit Committee. It will be published on Audit Scotland's website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the College. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Scope and responsibilities

The Code sets out the responsibilities of both the College and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 14 September 2017. We summarise the responsibilities of the College in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £450,000 and a Tolerable Error of £325,000. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences was £20,000.

Audit opinion

We [have issued] an unqualified opinion that the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council (SFC) of the state of the affairs of the College as at 31 July 2017 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Key contacts

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Keith Macpherson, Head of GPS Audit, Scotland
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Acknowledgement

We would like to thank all members of the College's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the College's financial statements

Preparation of financial statements

- The draft financial statements presented for audit were of good quality and required minimal adjustments to comply with the SORP disclosure requirements.
- There were no adjusted audit differences identified to bring to your attention. There are no unadjusted audit differences.

Significant risks

- Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues to indicate any misreporting of the College's financial position based on manipulation of revenue or expenditure transactions.
- We have reviewed the documentation around the one-off significant transaction involving a £2 million donation from Glasgow Kelvin College. We are satisfied that this has been appropriately accounted for in the financial statements.
- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other inherent risks

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements. Recognising the approval to proceed with the new Falkirk campus building, valuation of the existing assets was commissioned and a total reduction in value of £13.2 million identified, £0.4 million of which was charged to the deficit as an impairment below cost.
- The FPF defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

Other matters and reporting requirements

- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.
- In respect of our responsibility to report on the regularity of transactions, we have concluded that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- In respect of our 'Opinions on other prescribed matters', which includes the Performance Report, the auditable part of the remuneration report and the Governance Statement we have concluded that our opinion is unqualified. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the College's arrangements continued

Financial Management

- The College reported a deficit of £0.7 million for the year (2015/16: £2.1 million). Following revaluation losses of £12.8 million and actuarial losses of £1.3 million, the College reported a total comprehensive loss for the year of £14.8 million (2016: £6.2 million deficit). Within the Performance Report, the College uses the suggested format from the SFC to reconcile the reported deficit to the underlying surplus/deficit position. On this basis, the underlying position is a surplus of £0.7 million (2015/16: £1.4 million surplus).
- The College has well established financial management arrangements, and we are satisfied that these are adequate for the management of its financial activities.

Financial sustainability

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the College. Financial planning is constrained by the requirement to deliver in year resource targets. The College is working through the implications of the national pay bargaining settlement and how that affects its longer term financial forecasts.
- Development of the new Falkirk campus is a key project for the College and will involve significant senior management time. The interaction of the funding model with the costs, and allocation of different sources of income against the build costs, will need to be tracked carefully going forward.

Governance and transparency

- We have concluded that the College has established appropriate arrangements to demonstrate good governance and transparency in its operational activity.
- There is a commitment to transparency, with the conduct and detail of business of the College made available on the website.
- The independent Board effectiveness review reported positively in respect of the governance arrangements and the operation of the Board.

Value for Money

- The College has approved its Strategic Plan for the period 2017-22 and identified how it intends to deliver on the plan, and the overarching mission, through a series of enabling strategies.
- The College reports on its website in terms of annual performance, with key indicators included in the financial statements. There is scope to consider more information in terms of how performance compares to the targets the College sets itself in these areas.

Appendices

We have confirmed our independence to act as auditor of the College. Auditor remuneration of £22,470 was agreed with management.

**1. Financial
statements and
accounting**

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1. Financial statements and accounting



The College's annual financial statements enables the Board to demonstrate accountability for its resources and its performance in the use of those resources during the year. They are prepared in accordance with applicable law and UK Generally Accepted Accounting Practice.

Audit opinion

In respect of the financial statements, we report on the truth and fairness in accordance with the requirements of the Further and Higher Education (Scotland) 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended), and United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The detailed form and content of our audit report, plus the requirements underpinning the report, are contained in the Audit Scotland guidance at http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017-7_further_education.pdf (Appendix 1).

We [issued] an unqualified opinion based on the satisfactory completion of our work.

Financial statements preparation

As part of our oversight of the Board's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

The financial statements were prepared in accordance with the 2015 Statement of Recommended Practice for Further and Higher Education (SORP) alongside the Government Financial Reporting Manual (FRM) 2016/17.

The draft financial statements presented for audit were of good quality and required minimal adjustments to comply with the SORP disclosure requirements.

Materiality

We planned our procedures using a materiality of £450,000. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result of this reassessment. Our Tolerable Error for the audit was £325,000 and the threshold for reporting audit differences was £20,000. We also identified areas where misstatement at a lower level than materiality might influence the reader of the financial statements and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

There were no adjusted audit differences identified to bring to your attention.

There are no unadjusted audit differences.

Our Audit Plan identified key areas of focus for our audit of the College's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and / or exposure.

Significant risk – risk of fraud in revenue recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the presumed revenue recognition risk in relation to SFC core funding to the College. This was based on the fact that the funding is clearly allocated for delivery of activity within the financial year. Prior year College returns to the SFC have demonstrated that it has delivered on student credits (formerly SUMs) with no history of material clawback from the SFC. As there has been no history of issues or concerns raised through internal audit review of the College's data return for funding (FES) to the SFC, we considered the risk over potential clawback due to inaccurate data as low. However we recognise a revenue recognition risk for tuition income and other material income in respect of possible manipulation of cut-off around the financial year end. We also recognise the same risk around incorrect recognition of non-pay expenditure in line with Practice Note 10.

Results of audit procedures

We undertook the following procedures as part of our audit:

- Reviewed and tested revenue and expenditure recognition policies against the relevant accounting standards and the SORP. We also considered any accounting estimates on revenue or expenditure recognition for any evidence of bias.
- Developed a testing strategy in respect of material revenue and expenditure streams. For tuition fees and education contracts, we performed analytical review and substantive testing across a sample of contracts to ensure appropriate recognition. For SFC and other funding body grant income we reviewed all material grant funding recognised in the year for any indicators of either claw-back or that the terms and conditions of the financial memorandum have not been complied with in all material respects. In doing so, we considered the work of internal audit in respect of the College's FES return. We considered the conclusions of internal audit and their opinion on the return as providing additional assurance that there would be no potential reclaim of SFC funding paid to the College. For other income, we performed analytical review and substantive testing over a sample of transactions to gain assurance.
- We performed focused additional testing around transactions posted at the year end to gain comfort that key items are recorded in the correct accounting period. In particular we focused on any transactions incurred after 31 July, but included in the 2016/17 financial ledger.
- Reviewed and tested a sample of debtor balances at the year end, including material balances. We undertook an assessment of aged balances held on the balance sheet at year end including investigation of unusual items, such as those past payment due date.

There are no matters to raise with you as a result of the work performed.

Significant Risk, fraud in income and expenditure recognition – what have we concluded?

- Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues to indicate any misreporting of the College's financial position based on manipulation of revenue or expenditure transactions.

Significant risk – management override

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Results of audit procedures

Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.

Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management has disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.

Evaluate the business rationale for any significant unusual transactions

With the exception of the donation received from Glasgow Kelvin College (reported later), and the accounting transactions relating to that donation, we did not identify any significant unusual transactions.

We have not identified any material weaknesses in the design and implementation of control arrangements tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Significant risk, Management override – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Significant risk – donation from Glasgow Kelvin College

What is the risk?

In March 2017, the College received a £2 million donation from Glasgow Kelvin College. The purpose of the donation, made following an asset disposal by Glasgow Kelvin College and subsequent Ministerial direction to Glasgow Kelvin, was to support the College's new build campus in Falkirk.

As an unusual and non-routine transaction, management had discussed this with us at the time of receipt to ensure the accounting for the transaction was correct while making consideration of the interaction between resource accounting and financial statements reporting under the SORP.

Results of audit procedures

We have already provided management with our view on the accounting for this significant unusual transaction, in accordance with the accounting policies adopted by the College on transition to FRS 102. We identified an issue with the accounting as initially proposed to and by the College whereby, as a central government body, the donation from Glasgow Kelvin College should be accounted for in accordance with the College's accounting policy on government grants, as opposed to treating the income as a donation from a third-party charity.

As a result, management identified and entered into a sequence of transactions to enable recognition of the donation in 2016/17 in line with the purpose and restriction associated with it. This ensured that the cash was not 'frozen' for resource accounting purposes.

We have obtained evidence that the donation was applied to purchase the land at Middlefield which supports the new campus development. The balance of the donation was used to support estates development costs associated with the campus project.

As a result of the latter, the College had a resource underspend for which approval was sought and obtained from the Scottish Funding Council to enable donation of the underspend to the Forth Valley College Foundation. This donation totalled £579,000.

Management entered into correspondence with the Scottish Funding Council in respect of the above transactions, seeking Board and SFC approval as required. We are satisfied therefore that there was an appropriate audit trail in respect of the transaction and its consequences.

Significant risk, donation from Glasgow Kelvin College – what have we concluded?

- We have reviewed the documentation around the one-off significant transaction involving a £2 million donation from Glasgow Kelvin College. We are satisfied that this has been appropriately accounted for in the financial statements.

Other inherent risks

Valuation of property, plant and equipment

The College's property portfolio totals £57.4 million as at 31 July 2016, with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years.

Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assign a higher inherent risk to property, plant and equipment.

With the approval of the full business case for the significant planned investment in the Falkirk Campus, management identified the need to undertake a valuation of existing land and buildings at the 31 July 2017, to ensure the carrying value of existing assets is not overstated.

Results of audit procedures

In response to the inherent risk we performed the following audit procedures:

- We agreed the carrying value of assets held to source data and enquired of management as to the procedures used to establish whether the source data is complete.
- We reviewed the basis of asset valuations and performed an assessment of the reasonableness of the assumptions and methods used, including their compliance with the SORP and FReM.
- Considered the appropriateness of the timing of when management's specialist carried out the work and whether the substance of the specialist's findings are properly reflected in the financial statements.

The valuation of land in relation to the sites affected by the Falkirk Campus development took into account the restricted useful economic life of the related assets, recognising that they will be disposed of on completion and transfer to the new building.

This resulted in a reduction in value of £13.2 million, £12.8 million of which was recognised against the revaluation reserve through other comprehensive income with the balance of £0.4 million charged to the deficit as an impairment below cost of the asset.

We are satisfied that management has undertaken sufficient procedures to gain assurance that property, plant and equipment is held at an appropriate value as at the reporting date. A full interim professional valuation will be undertaken in 2017/18.

Other inherent risk, valuation of property, plant and equipment – what have we concluded?

- We are satisfied that management has adequate arrangements to ensure that property, plant and equipment is appropriately valued within the financial statements. Recognising the approval to proceed with the new Falkirk campus building, valuation of the existing assets was commissioned and a total reduction in value of £13.2 million identified, £0.4 million of which was charged to the deficit as an impairment below cost.

Other inherent risks

Valuation of pension liabilities

The College participates in two pension schemes; the Falkirk Council Pension Fund (FPF), and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme. The College recognises a provision for future early retirement liabilities of £7.3 million.

FPF is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet arising from participation in the scheme were £19.2 million as at 31 July 2017.

Results of audit procedures

In response to the identified inherent risk we:

- Obtained actuarial reports at the year end date for the FPF scheme and considered the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available ensuring compliance with funding agreements.
- Utilised our in-house actuaries to assess the reasonableness of key assumptions such as discount rate, inflation and expected market return.
- Performed substantive testing on the verification of the pension assets and audited the calculation of the College's valuation and disclosure in the financial statements.

In respect of the provision for future early retirement obligations, we reviewed the College's calculation of the provision as at 31 July 2017, including the reasonableness of management's assumptions and the accuracy of amounts calculated. We performed substantive testing to gain assurance over the underlying data used to calculate the provision.

Other inherent risk, valuation of pension liabilities – what have we concluded?

- The FPF defined pension scheme liabilities were estimated using actuarial assumptions which we consider to be reasonable. We have undertaken appropriate testing of underlying data to support the calculation of the liability.

In accordance with Audit Scotland requirements, our independent auditor's report also covers the key narrative statements such as the Performance Report, the Accountability Report and the Remuneration and Staff Report which the College is required to include within its Annual Report and Accounts.

Other reporting requirements

Performance Report

In accordance with the Code, we review the information contained within the Performance Report and confirm that this is consistent with the information reported within the financial statements. As a new responsibility in 2016/17, under the Code, Audit Scotland requires us to also express an opinion on whether the Performance Report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

We are satisfied that the information with the Performance Report is consistent with the financial statements and has been prepared in accordance with applicable requirements.

Accountability Report, including the Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council. We are satisfied that the information with the Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements.

Remuneration and staff reports

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations. We are satisfied that auditable part of the remuneration and staff report has been properly prepared in accordance with regulations.

Regularity opinion

The Board of Management is responsible for ensuring the regularity of expenditure and income. Auditors are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Other audit matters – opening balances

International Standard on Auditing (UK) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

The results of our procedures were satisfactory and we have no matters to report to you in respect of this.

Other reporting requirements – what have we concluded?

- We reviewed the other information presented within the financial statements and provided management with minor comments to enhance the content, structure and presentation of these. These were amended by management.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

**2. Wider scope
audit**

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2. Wider scope audit



In accordance with the Code, we provide judgements and conclusions in respect of our work on the four audit dimensions of public sector audit: financial management; financial sustainability; governance and transparency; value for money.

Wider scope audit risks

The Code requires us to undertake work in respect of each of the four dimensions on an annual basis. The Code also sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring to 'Wider Scope Audit Focus Areas'.

In our Annual Audit Plan we did not identify any areas of wider scope audit focus in the current year. We have however, undertaken routine work in respect of each of the audit dimensions, by considering the evidence available to us through various aspects of our work.

Financial management

The College reported a deficit of £0.7 million for the year (2015/16: £2.1 million). Following revaluation losses of £12.8 million and actuarial losses of £1.3 million, the College reported a total comprehensive loss for the year of £14.8 million (2016: £6.2 million deficit). Within the Performance Report, the College uses the suggested format from the SFC to reconcile the reported deficit to the underlying surplus / deficit position. On this basis, the underlying position is a surplus of £0.7 million (2015/16: £1.4 million surplus). The College uses this measure to demonstrate that it is operating sustainably.

The College also reported that it had operated within its resource limits for the year ended 31 March 2017, reporting essentially a breakeven position against its revenue resource limit of £25.5 million and its capital resource limit of £0.4 million. The only difference on the revenue outturn position was the £146,000 used for annual loan repayments which the College was committed to before reclassification as a public body, as these do not score against the resource outturn.

Performance against budget

After deduction of the one-off and unusual nature of the donation from Glasgow Kelvin College, the performance during the year was broadly in line with original budget forecast.

Funding aspect	Budget - £m	Actual - £m	Variance - £m
Income	31.718	34.894	3.176
Expenditure*	(31.714)	(33.000)	(1.286)
Total surplus (before tax)	0.04	1.894	1.890

*Includes net non-operational expenditure

Capital Expenditure

During 2016/17 the College spent £1.6 million on capital additions. This was primarily in relation to the ongoing Falkirk Campus development, including purchase of the land at the Middlefield site.

2. Wider scope audit

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial management (continued)

Monitoring of expenditure

Financial performance is monitored through monthly management accounts comprising an income and expenditure account, student support funds statement and a balance sheet. The reporting pack also includes an update on major capital projects. Financial performance is monitored by the Principal and senior management team. Performance is monitored and scrutinised by the finance and general purposes committee and the Board.

We reviewed the financial information monitored by senior management, committees and the Board and we are satisfied that the information is sufficiently detailed, including explanation of material variances to provide meaningful information to allow scrutiny and challenge of performance.

Colleges are classified as central government bodies and therefore are now required to operate within a resource limit which is measured annually at the end of March. Monitoring performance against two distinct measures is a challenge. It will continue to be important that management ensure that the Board are aware of the impact of key decisions on both outturn financial performance as well as ability to meet resource limits.

Internal control

It is the responsibility of the College to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility, as auditor, is to consider whether the College has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operating effectiveness of key controls. We have reviewed the high level procedures management have with respect to internal control.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

Internal audit

The College has an internal audit service, who report to the Principal and the audit committee with direct access to the chair of the audit committee. On the basis of the work undertaken during the period the auditors have expressed an opinion that the College has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of objectives and the management of key risks and proper arrangements are in place to promote value for money and deliver best value.

As part of their work for the year, internal audit reviewed the budget setting and monitoring arrangements within the College, as well as controls around non-pay expenditure. In respect of our wider scope work, these reports demonstrated that, in the main, the College has no major weaknesses although internal audit made some lower grade recommendations for improvement.

Financial management - what have we concluded?

- The College reported a deficit of £0.7 million for the year (2015/16: £2.1 million). Following revaluation losses of £12.8 million and actuarial losses of £1.3 million, the College reported a total comprehensive loss for the year of £14.8 million (2016: £6.2 million deficit). Within the Performance Report, the College uses the suggested format from the SFC to reconcile the reported deficit to the underlying surplus/deficit position. On this basis, the underlying position is a surplus of £0.7 million (2015/16: £1.4 million surplus).
- The College has well established financial management arrangements, and we are satisfied that these are adequate for the management of its financial activities.

Financial sustainability is focused on the medium to longer term financial viability, and considers how effectively an audited body is planning to deliver its services over the medium term.

Financial sustainability

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer-term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Audit Scotland's sector report: Scotland's colleges 2016, highlighted that between 2011 and 2015/16 the Scottish Government funding to the sector reduced by 18 % in real terms. While the College's core funding has remained relatively stable in the current year of £23.8 million (2016: £23.2 million) management recognise that savings will be required in future years with envisaged constraints on future public sector resources. This requires an ability to transform and deliver significant recurring efficiency savings, while at the same time ensuring that the impact on core delivery is minimised.

Financial performance

The College reported a deficit of £0.7 million for the year (2015/16: £2.1 million). Following revaluation losses of £12.8 million and actuarial losses of £1.3 million, the College reported a total comprehensive loss for the year of £14.8 million (2016: £6.2 million deficit). Within the Performance Report, the College uses the suggested format from the SFC to reconcile the reported deficit to the underlying surplus/deficit position. On this basis, the underlying position is a surplus of £0.7 million (2015/16: £1.4 million surplus). The College uses this measure to demonstrate that it is operating sustainably.

An important part of ongoing financial assurance is regular updates to the Board on monitoring of expenditure against budget and the forecast outturn for the year. Financial performance is scrutinised by the senior management team, the finance and general purposes committee and the Board.

Financial planning

The College has approved its 2017/18 budget, with an operating surplus of £174,000 set. The key pressure within the budget is the higher salary costs on the back of the national pay bargaining settlement. Overall staff costs are forecast to increase by £1.2 million, or 5%, but already represent close to 80% of total operating expenditure (excluding depreciation).

Cost pressure analysis by management has identified that agreement within the national pay settlement such that the College is not able to increase its contact time from the current 22 hours to the nationally agreed 23 hours adversely impacts their ability to restructure course delivery to achieve efficiencies.

An increase in SFC grant income is included in 2017/18 forecasts, however when the wider pressures on costs, in addition to national pay bargaining are considered, such as annual increments, pension increases, apprenticeship levy costs and inflationary pressures, the increased funding will not be sufficient to cover these pressures.

The downward revaluation of the Falkirk Campus has reduced the College's net depreciation cash, from £608,000 to £141,000. Within the funding model agreed with SFC for the new campus was the assumption that the College would meet estates costs of £400,000 per year through use of net depreciation. This is now not available to the College and so they will be required to generate an increased surplus if this funding model is to be met. Delivery of the new campus is the major item on the College's strategy, and construction started in October 2017. This will bring additional challenges through the course of the build in terms of the capacity of management during what will be a challenging period.

Financial sustainability – what have we concluded?

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the College. Financial planning is constrained by the requirement to deliver in year resource targets. The College is working through the implications of the national pay bargaining settlement and how that affects its longer term financial forecasts.
- Development of the new Falkirk campus is a key project for the College and will involve significant senior management time. The interaction of the funding model with the costs, and allocation of different sources of income against the build costs, will need to be tracked carefully going forward.

2. Wider scope audit

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance and transparency

The Board and management of the College are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations. While we have not identified any significant risks in relation to the College's governance arrangements through our audit planning, we consider the adequacy and effectiveness of the College's governance arrangements as part of our audit work.

Governance arrangements

The College has in place key requirements for good governance. We have reviewed Board minutes and papers and found these to set out clearly the matters considered and discussed. The Board undertook its effectiveness review during the year which concluded positively overall on the governance systems and processes, the calibre and mix of board members and the partnership working between staff and board members. Some areas for continued review and scope for improvement were identified. In particular, the College is considering the role and business of the strategic development committee and its interaction with the Board. In line with transparency, the effectiveness review is available on the College website.

The Governance Statement sets out the arrangements the College has put in place to comply with the Code of Good Governance for Scotland's Colleges. No significant areas of non-compliance were identified and disclosed. This is in line with our understanding of arrangements.

Effective risk management

The risk management policy outlines the approach to risk management, the roles and responsibilities of the Board, the senior management team, and other key parties. It also outlines the key risk management processes and identifies the main reporting arrangements.

The College's internal auditors facilitated a risk workshop for members of the Board and the senior management team in October 2017. This will be used to enhance the College's approach to risk, and risk appetite, during 2017/18.

Transparency

The College publicises Board and standing committee agendas, minutes and papers on their website on a timely basis. It is clear that the College endeavours to make as much information available as possible, redacting for example certain financial information only where it would be considered to be reserved under freedom of information requests.

Governance and transparency – what have we concluded?

- We have concluded that the College has established appropriate arrangements to demonstrate good governance and transparency in its operational activity.
- There is a commitment to transparency, with the conduct and detail of business of the College made available on the website.
- The independent Board effectiveness review reported positively in respect of the governance arrangements and the operation of the Board.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively and how performance and outcomes are monitored.

Strategic planning

The College approved its new strategic plan for 2017-22 during the year. The plan continued the mission of the College of 'Making Learning Work', with six key objectives comprising the vision. These objectives are delivered through six aligned strategies:

- Creating a superb learning environment – Estates Strategy
- Cultivating a vibrant learning organisation – Creative Learning and Technologies Strategy
- Instilling an energy and passion for our people – People Strategy
- Leading as a business that is a champion for governance – Code of Good Governance / Financial Strategy
- Enhancing our position as the business – Commercial, International, Fundraising Strategies
- Delivering a whole system approach – Creative Learning and Technologies Strategy

Performance reporting

The College publishes its performance information annually on its website as well as including key measures within the financial statements and Board and committee papers published on the website. While there is a range of sources of performance information, including the financial statements, and KPI information, there is an opportunity to enhance the current performance information contained within the financial statements to provide a view of how performance compares to targets, and how those targets are expected to change over the period of the strategic plan.

Value for money – what have we concluded?

- The College has approved its Strategic Plan for the period 2017-22 and identified how it intends to deliver on the plan, and the overarching mission, through a series of enabling strategies.
- The College reports on its website in terms of annual performance, with key indicators included in the financial statements. There is scope to consider more information in terms of how performance compares to the targets the College sets itself in these areas.

Appendices

- A. College responsibilities
- B. Required communications with the Audit Committee
- C. Auditor independence
- D. Management representations

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A. College's responsibilities



The Code of Audit Practice summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies

Corporate governance	<p>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</p>
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	<p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • such financial monitoring and reporting arrangements as may be specified • compliance with any statutory financial requirements and achievement of financial targets • balances and reserves, including strategies about levels and their future use • how they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their financial position.
Best Value	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

B. Required communications



There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA (UK) 260 and other auditing standards, which are set out below.

Required communication - what is reported?	Our reporting to you
<p>Terms of engagement</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits 	<p>This Annual Audit Report.</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>No conditions or events were identified, either individually or together to raise any doubt about the College's ability to continue for the 12 months from the date of our report.</p>
<p>Fraud</p> <ul style="list-style-type: none"> • Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the College • Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. <p>► A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.</p>	<p>This Annual Audit Report.</p>

B. Required communications (cont.)



Required communication - What is reported?	Our reporting to you
<p>Misstatements</p> <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Significant corrected misstatements, in writing 	<p>This Annual Audit Report.</p>
<p>Significant deficiencies in internal controls identified during the audit</p> <ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	<p>This Annual Audit Report</p> <p>No significant deficiencies were identified in the course of our audit which required immediate communication to the Audit Committee.</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the College's related parties including, where applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and/or regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report.</p>
<p>Subsequent events</p> <ul style="list-style-type: none"> • Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements. 	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Other information</p> <ul style="list-style-type: none"> • Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report.</p>
<p>External confirmations</p> <ul style="list-style-type: none"> • Management's refusal for us to request confirmations • We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations.</p>
<p>Consideration of laws and / or regulations</p> <ul style="list-style-type: none"> • Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" • Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
<p>Independence</p> <ul style="list-style-type: none"> • Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. 	<p>This Annual Audit Report – Appendix C</p>

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the College.

What we are required to communicate?

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- The principal threats
- Safeguards adopted and their effectiveness
- An overall assessment of threats and safeguards
- Information on the firm's general policies and processes for maintaining objectivity and independence
- Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the College Audit Committee on 21 November 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 July 2017.

Our audit fee was agreed with management at the time of our Audit Plan. There are no changes to those fees.

Auditor remuneration	£22,470
Fixed costs *	£2,440
Total audit fees	£24,910

* Fixed costs, which are determined by Audit Scotland, comprise £1,280 pooled costs, £1,160 contribution to Audit Scotland's costs.

ISA (UK) 580: *Written representations*, requires the auditor to obtain written representation that management, including those charged with governance, has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation.

Ernst & Young LLP

Atria One

144 Morrison Street,

Edinburgh, EH3 8EB

[Date]

This letter of representations is provided in connection with your audit of the financial statements of Forth Valley College ("the College") for the year ended 31 July 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the College financial position as of 31 July 2017 and of its income and expenditure for the year then ended in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

We understand that the purpose of your audit of our consolidated financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.
2. We acknowledge, as members of management of the College, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the College and its group in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the College, we believe that the College has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the College's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the College.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

D. Information Provided and Completeness of Information and Transactions (continued)

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Board of Management of the College and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the College's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the College has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. As disclosed in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements

or notes thereto.

G. Going concern

1. We have not identified any material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Remuneration Report, the Performance Report, the Annual Governance statement and the Statement of Responsibilities.
2. The disclosures within the Performance Report and Governance Statement reflects our understanding of the financial and non-financial performance of the College over the reporting year, is consistent with the financial statements and has been prepared in accordance with Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council
3. The information given in the Governance Statement for the financial year for which the financial statements are prepared reflects the College's governance framework, is consistent with the financial statements and that report has been prepared in accordance with the financial statements.
4. The information contained in the auditable part of the Remuneration Report has been prepared in accordance with Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

I. Regularity

1. We confirm that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers

Yours faithfully,

Principal

Chair of the Board of Management of the College

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1. Purpose

To provide members with an update on the key activities and achievements of the Procurement Team aligned to the Procurement Strategy in 2016/17 and the priorities for 2017/18.

2. Recommendation

That members take note of the content of this update and provide support for the priorities identified for 2017/18.

3. Background

The College Board of Management approved the new Procurement Strategy in December 2016 and the Strategy is now published on the College website, as required by the Procurement Reform (Scotland) Act 2014.

The Strategy contains an action plan which includes five Objectives and a number of KPI's which the College will be required to formally measure and report on at the end of the 2017/18 Financial Year.

This paper seeks to provide an overview of the Procurement Team's progress in achieving the Objectives in the Strategy, as well as identifying a forward plan of the key activities to be undertaken in 2017/18 to continue to fully deliver on the Objectives and KPI's in the Procurement Strategy.

4. Key Considerations

As a high level summary, the key objectives set out within the Procurement Strategy include:

- Increase the number of Collaborative contracts being used by the College
- Increase the proportion of annual non-pay spend covered by a formally procured contract
- Increase the number of 'regulated' contracts used by the College and publish a Contract Register on the College website
- Increase/improve awareness of procurement information to College staff and suppliers
- Improved sustainability outcomes from our procurement activity

Appendix A provides analysis of the progress achieved in these areas in 2016/17.

In 2016/17 the main procurement project for the College was for the Main Contractor for the new Falkirk Campus project, which culminated in the appointment of Balfour Beatty. This appointment was delivered on time and budget, and with no request for further de-brief or legal challenge by any of the unsuccessful Bidders.

Although progress has been made in 2016/17, there are some priority areas for the Procurement Team to focus on in 2017/18, in particular continuing to address the areas of non-pay spend currently not covered by a formal procurement contract (22 suppliers/£395, 000 (approximately))

based on 2016/17 expenditure), thereby 'non-compliant' with the Procurement Regulations. It should however be noted that these areas of expenditure could be deemed low/medium value and risk and that the Procurement Team to date has focused on ensuring high value/risk contracts have been put in place.

Appendix A also identifies the key priorities for action in 2017/18.

5. Financial Implications

Please detail the financial implications of this item – Possibility of generating cash savings in the areas of non-pay spend not currently covered by a formal procurement contract.

6. Equalities

Assessment in Place? – Yes No

If No, please explain why – Not applicable to this item.

Please summarise any positive/negative impacts (noting mitigating actions) – N/A

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
Low	X	
Very Low		

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

- Failure to measure/report on the Objectives and KPI's in the Procurement Strategy would be in breach of the Procurement Reform (Scotland) Act 2014. **Mitigate by continuing to measure the Objectives and KPI's and publish report after 16/17 FY end.**
- Failure to address the current areas of spend not covered by a formal procurement contract would be in breach of the Procurement Reform Act and could also present a risk of challenge from suppliers. **Mitigate by taking action on the areas identified and publishing a forward action plan as part of the Procurement Report following 17/18 FY end.**

Risk Owner – Alison Stewart

Action Owner – Paul Johnstone

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – Yes No

Health and Safety – Yes No

Please provide a summary of these implications – None

Paper Author – Paul Johnstone

SMT Owner – Alison Stewart

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Appendix 1

Summary of Progress in 2016/17

KPI/Measure	15/16	16/17
Increase % uptake of available Collaborative Frameworks	37.9%	49.88%
Increase proportion of annual non-pay spend covered by a formally procured contract	£3,642,493	£3,953,995
Number of Contracted Suppliers	92	99
Number of Contracts used by College and in published Contracts Register		46

The Procurement Team were involved in a number of key projects in 2016/17, most notably the appointment of Balfour Beatty for the new Falkirk Campus, and the appointment of Servest FM as the new Total Facilities Management provider.

Other key measures of progress:

<p>We have sought to increase College Staff awareness of Procurement by:</p>	<ul style="list-style-type: none"> • Populating SharePoint with information such as policies/procedures, contracts, templates • Seeking staff feedback on the performance of the Procurement Team via annual surveys, with areas noted for continual improvement • Seeking staff feedback on the performance of key suppliers via online surveys, with the outcomes of these being used as part of ongoing Contract Management
<p>We have sought to increase Suppliers awareness of FVC Procurement by:</p>	<ul style="list-style-type: none"> • Populating the College website with all relevant information on how to do business with the College • Publishing our Procurement Strategy and Contracts Register • Providing useful links to Supplier Development Programme
<p>Improve Sustainability outcomes via our Procurement activity</p>	<ul style="list-style-type: none"> • Servest FM have agreed to pay the Living Wage to relevant staff as part of the Total FM contract • Wide ranging Community Benefits (estimated at £31.8m) secured through the appointment of Balfour Beatty • Recent appointment of a local SME on a 4 year contract for the supply of PPE

Priorities for 2017/18

- Continue to address non-pay expenditure not currently covered by a formal contract (£395,000 per annum approximately based on 2016/17 expenditure)
- Review/Re-tender eight existing contracts which are due to expire in 2018
- Continue to work towards the achievement of all Objectives/KPI's in the Procurement Strategy by end of 17/18 FY, in conjunction with departments/staff across the College
- Publish the first Annual Procurement Report, as required by the Procurement Reform (Scotland) Act 2014, as soon as possible after 17/18 FY end.

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1. Purpose

To update members on the final position for Student Funding in Academic Year 2016-2017 and an update on the position for 2017-2018.

2. Recommendation

That members note the underspend for 2016-17 and the forecasted outturn for 2017-18

3. Background

SFC issue allocations for Student Support around April and then in November Colleges have the opportunity through the in-year re-distribution process to either request further funding for Student Support or relinquish funding based on the demand from Students.

4. Key Considerations

a. 2016-2017

The Outturn for 2016-17 is detailed in Appendix One. When we received our initial allocation for 2016-17 Student Support Funding has been reduced by £199k to a budget of £3,730k. Based on the previous year's spend of £4,027k the College agreed to submitted a request for further funding of £450k. This increased our 2016-17 Budget to £4,180k. We did not notify SFC prior to the in-year redistribution being announced that we did not need the full amount requested. However, they advised us they did not want to reduce the allocation and instead would recoup this and any further underspend as part of the 2017-18 in-year redistribution process. In addition to this SFC then paid a further £52k of funding in March 2017 in relation to ESF for 2015/16 which the College had not asked for.

Overall this has resulted in an under spend of £333k for 2016-17.

FE Bursary is underspent by £180k. We had 22 less Parental Supported Students and 20 less Self Supporting Students than 2015-16. Therefore this equals approx. £140k less paid out in weekly maintenances, we did not look at Student Ages when calculating the predicted 2016-17 spend, which was why this was not factored into the calculation for additional funding. The balance of £45k is as a result of the change to 100% attendance and withdrawals.

Childcare is underspent by £84k. In 2016-17 we made a change to our Childcare policy, which applied caps for the hourly rates and session rates, this was due to Students signing contracts for amounts higher than the national averages, which were designed to offset college deductions for free nursery hours and non-attendance payments. This policy change was not factored into our calculations when requesting additional funding. There has also been a reduction in the number of FE Students requesting Childcare Funding, this reduced from 208 in 2015-16 to 176 in 2016-17. However we offset some of this with an increase in HE Students which increased by 20 students to 79 in 2017-18.

Discretionary Funding is underspent by £18k, £13k in FE and £5k in HE. This is due to us holding some funding in case Students request support with unforeseen financial circumstances, such as rent arrears, car repairs etc. This part of the Budget is difficult to predict on an annual basis.

In 2015-16 the College had an over spend of £98k, within this there was an over spend with our ESF Allocation, however SFC had ESF Funding remaining and released a further £52k in ESF Funding in March 2017.

b. 2017-2018

Our 2017-18 allocation for Student Support is currently £4,175k, this consolidated the request of additional funding of £450k.

Appendix Two details the Budget and the Forecast Outturn for 2017-18

For FE Bursary our weekly maintenance rates have been increased by 1.5% for session 2017-18.

Weekly Maintenance	2016-17	2017-18
Parental Supported	75.91	77.01
Self-Supporting	95.94	97.33

Currently the College has committed to pay 744 Students £2,306k in FE Maintenance. Based on last the 3 years we know we will normally pay 90% of the commitment, so for Student's who have been awarded funding to date we estimate we will pay £2,075k in Maintenance.

Based on our 16-17 Student Numbers we received applications from 836 Students, therefore we are estimating that we will receive a further 92 Applications. These Applications will come from Students who choose to appeal for Funding for August Start Dates Courses and also there is an element built in for January Courses.

We estimate this commitment to be approx. £215k so based on paying 90% of committed funding, it is estimated we will pay £194k. Therefore our Forecasted Spend on FE Maintenance is ££2,269k.

The College pay Students their FE Travel based on the cost of a weekly bus ticket and the number of zones a student has to travel. These rates have on average increased by 2.47% from 2016-17

	Zone 1	Zone 2	Zone 3
2016-17	17.90	22.90	32.00
2017-18	18.20	23.50	33.00
% Increase	1.68%	2.62%	3.13%

Currently the College has committed to pay 946 Students £657k in FE Travel, so we estimate we will pay 90% of this out, therefore forecast a spend of £591k.

We will also receive further applications from Students who may move home midterm, appeal for funding for their august courses, January Courses and there is also placement travel paid to

Business, Care and Hairdressing Students. We estimate this spend to be approx. £94k. Therefore our Forecasted Spend on FE Travel is £685k.

For Study Materials we have some changes to last year. Care, Health and Sport have introduced a uniform which costs £82.55 per student, however Salon Services have undertaken a stock taking exercise and reduced their spend so we are estimating a 1.5% increase for 2017-18, meaning a Forecasted Spend on Study Materials of £82k.

Overall we are predicted spend of £3,036k against a budget of £3,085k, which means a £49k underspend.

For Childcare we have accepted applications from 191 Students, which is currently 126 FE Students and 65 HE Students. Based on 2016-17 we paid an average of £2,125 for FE Student's Childcare and £2,246 for HE Student's Childcare.

We estimate we will receive a further 55 applications from FE Students and 20 from HE Students. Therefore we are forecasting a spend of £575k for Childcare, which is an underspend of £87k.

For FE Discretionary we always assume we will spend the full budget and for HE Discretionary we think there is the possibility of an £11k underspend, this may result in us requesting further funding from SAAS.

Overall there is a predicted under spend of £136k in FE Spend and an over spend of £11k in HE Funding resulting in a net underspend of £124k.

5. Financial Implications

As part of the 2017/18 in year redistribution process the College will return the 2016/17 underspend of £333k. In addition to this it is proposed that the College also relinquishes £100k of the projected 2017/18 underspend. This has no impact on the core College budget.

6. Equalities

Assessment in Place? – Yes No

If No, please explain why –

Please summarise any positive/negative impacts (noting mitigating actions)

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		
Low		x
Very Low	x	

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

There the main risk to the College is having insufficient funds to cover all required student support. This risk is very low given the financial projections for 2017/18.

Risk Owner – Alison Stewart

Action Owner – Louise Burnett

Paper Author – Louise Burnett

SMT Owner – Alison Stewart

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Appendix One

Student Support Spend 2016-17						
Fund	2016-17 Budget	In year Redistribution	Additional ESF 2015-16 Funding	2016-17 Final Budget	2016-17 Spend	Variance
FE Bursary	2,750,397	388,742	51,838	3,190,977	2,959,269	231,708
FE, HE & ESF Childcare	573,673	61,258	0	634,931	551,424	83,507
FE Discretionary	249,229	0	0	249,229	236,332	12,897
HE Discretionary	156,952	0	0	156,952	152,236	4,715
Totals	3,730,251	450,000	51,838	4,232,089	3,899,261	332,827

Appendix Two

Student Support Spend 2017-18				
Fund	2016-17 Spend	2017-18 Budget	2017-18 Forecasted Spend	Variance
FE Bursary	2,959,269	3,085,108	3,036,160	48,948
FE, HE & ESF Childcare	551,424	662,155	575,535	86,620
FE Discretionary	236,332	279,559	279,559	0
HE Discretionary	152,236	148,683	159,848	-11,165
Totals	3,899,261	4,175,505	4,051,102	124,403
FE Bursary				
Area	2016-17 Spend	2017-18 Funding Commitment	2017-18 Estimated Future Awards	2017-18 Final Spend
FE Maintenance	2,221,976	2,306,390	214,850	2,269,116
FE Travel	656,545	657,040	104,166	685,085
FE Study Mats	80,748	62,804	19,155	81,959
Total	2,959,269	3,026,234	338,171	3,036,160
Childcare				
Area	2016-17 Spend	2017-18 Funding Commitment	2017-18 Estimated Future Awards	2017-18 Final Spend
FE Childcare	374,010	267,750	116,875	384,625
HE & ESF Childcare	177,402	145,990	44,920	190,910
Total	551,412	413,740	161,795	575,535

1. Purpose

To present the Management Accounts to members for the 3 months to 27 October 2017.

2. Recommendation

That members consider the year to date actual versus projected financial position of the College and the projected impact this has on the 2017/18 overall budget.

3. Background

The purpose of this report is to provide a summary of the College results from 1st August 2017 to 27th October 2017 and to highlight the key variances between actual outturn and the Budget, which was approved by the Board of management in June 2017.

4. Key Considerations

Income and Expenditure – Actual vs Budget (Appendix 1)

There is an operational surplus of £100k as opposed to the projected surplus of £528k. Significant variances (greater than £10k) to note are:

Income

- **Tuition Fees**

Tuition Fees are currently £40k higher than the Budget part of which is due of the timing of invoices being raised. There is additional income within Care, Health and Sport as the department has introduced a new Part Time Distance Learning HNC in Social Services, which is recruiting well.

- **HEI Tuition Fees**

HEI Tuition Fees are £71k lower than the Budget. £61k relates to the Heriot Watt Chemical Engineering Programme, the numbers have just been recently finalised and the College is waiting on a Purchase Order to be able to raise the invoice for this programme, based on the numbers for this programme the income is going to be **£19k** less than the Full Year Budget. The balance of £10k relates to the Stirling University HEI Courses, this is due to student numbers being budgeted at 220 however we are only invoicing for 200 and the Budget did not reflect that the University's "Unit of Teaching Resource" value was wrong as a 3% reduction that SFC had previously announced, had not been taken into account, this error was only identified on 31st July 2017. This means income is going to be **£62k** less than the Full Year Budget. The Strathclyde University Programme numbers have been confirmed on 13th November 2017 and there is no change to the projected income for this programme.

- **International Income**

Overall, International income is £101k lower than the Budget. **£55k** relates to the planned integrated degree programme with [REDACTED], this will not happen this academic year as recruitment for this programme did not happen, there will be some marketing costs associated with the programme for next year's recruitment. There was also income budgeted for a project with the [REDACTED] of **£40k** that is no longer happening. However Business Development have highlighted at their latest Budget Monitoring Meeting that there is a further risk of a further loss of approx. £101k in income or £66k in contribution. This is covered in more detail within the Business Development paper for Finance Committee.

- **Evening Provision Income**

Evening Income is currently £20k higher than Budget. This is due to more courses running than was in the original budget, there is also further additional courses running in Block 2. This additional income will be offset with additional staffing costs that will be incurred, as there is currently an additional 2910 evening hours in Curriculum Planning compared with when the Budget was set. Overall there is little impact on the budget.

- **Commercial Training Income**

The income is lower than Budgeted by £54k. Business Development are £20k lower than Budget, £13k relates to Electrical Safety, there was approx. £10k in the Budget for a COMPEX 12 Design Course however this has not taken place as we do not have the licence to run this course or recruit a new trainer. £6k relates to Business Skills courses, these courses did not recruit. Schools College Partnership is £30k lower than Budget and this is due to awaiting a Purchase Order from Stirling Council for the SCOTS Programme.

- **Modern Apprentice Income**

Overall, MA income is £57k lower than the Budget. £64k of this relates to Milestone Income, however this is due to the timing of claims with SDS and will come back into Budget. This is offset by training charges being £7k higher than Budget.

Expenditure

- **Salary Costs**

Salaries are £131k higher than Budget. £123k of this relates to Academic Salaries. As the salary, increases were agreed so late last academic year it was decided to phase the Academic pay increase for 2017/18 later in this academic year. However, agreement was reached at the start of the current academic year and this has been fully implemented. The phasing will be corrected at the Quarter 2 reforecast. Having spoken to the Heads of Department, there is currently no significant changes from the original Budget.

- **Learning & Teaching Materials**

Learning and Teaching Materials are £56k lower than Budget. £41k of this relates to Materials and in particular £30k relates to Construction, after discussion with the Head of Department this is due to the timing of spend and is not a saving. £9.5k relates to ECDL Registrations, again this has been identified as timing and the balance of £4.5k is relating to a credit from a yearend adjustment, which will be reversed when we release payment to our CPP Partners for ESOL Delivery Materials.

- **Learning & Teaching Exams and Registration Fees**

Exam and Registration Fees are £20k higher than the budget, this is due to the timing of City, Guilds Registrations, as students on particular courses cannot sit online exams with City, and Guilds until registered and this has been registered earlier than the previous academic year.

- **Learning & Teaching Other**

The **£30k** adjustment relates to the costs associated with both the reduction in international income of for the integrated degree programme that will now be incurred next year along with the Beijing Institute of Petroleum Technology project that is no longer happening during 16/17.

- **Property & FM Costs**

Property and FM costs are £43k below budget. £16k of this relates to Property Maintenance, which is due the phasing of the Budget. £14k relates to Protective Clothing and part of the reason for this is due to departments previously coding Bursary PPE to their Protective Clothing Budgets and the phasing of the Estates PPE Budget. The balance of £13k relates to the new FM contract, there have been changes to this since the Budget was set and any saving will be reported as part of the Quarter 2 report.

- **Equipment Costs**

Equipment Costs are currently £22k lower than Budget. £11k of this relates to valves for the Rig, the department are awaiting a quote for these, £4k relates to a replacement of a mechanical saw within ASMME that has still to be quoted and £5k relates to Hospitality, which is due to timing and will be spent.

- **Print Costs**

Print Costs are £33k less than Budget, however there is due to the timing of receiving the invoice from Cannon, which is currently working its way through the Purchasing System.

- **Governance Costs**

Governance Costs are £18k less than Budget. £12.5k of this relates to the phasing of the Strategic Projects Budget and the balance is due to the phasing of Audit and Legal Fees.

- **IT Costs**

IT Costs are £29k lower than budget, £17k relates to Computer Software Maintenance and in particular the purchase of new software for Creative Industries, which is currently being sourced by IT and the balance relates to Licenses, which is relates to a licence for eLearning which is currently awaiting the supplier to be added to the APUC Framework.

- **Other Costs**

Other Costs are currently £20k higher than Budget, £35k relates to spend for Materials for Bursary Funded Students which will be refunded by the Quarter 2 Report. There is a saving of £14k within Consultancy, £8k of which relates to the International Income that has not been delivered.

- **Non Cash Expenditure**

Non Cash Costs are currently £65k higher than Budget. Since the Budget was set there has been a change to the depreciation figures for our current Falkirk Campus as a result of the recent revaluation following Scottish Government's approval of the new Falkirk Campus Project. Holiday Pay is £37k lower than Budget, this is due to the 2016-17 Accrual being higher than forecast, this accrual can vary due to the timing of when staff take their holidays.

Balance Sheet (Appendix 2)

- **Fixed assets**

There have been additions of £37k to fixed assets for the first quarter. These additions have been offset by the cumulative depreciation charge for the current academic year, which is higher than previously given the existing Falkirk campus is to be depreciated to open market value over the next 2 years.

Current Assets

- **Trade debtors**

Trade debtors have increased by £48k in comparison to the year end. This increase is due to the invoicing that takes place at the start of the term for new contracts etc.

- **Prepayments and accrued income**

Prepayments and accrued income have decreased by £660k in comparison to the year end. This is due to the 2016/17 prepayments and accrued income being reserved into the current year. The current balance of £439k in accrued income is made up of accruals for SFC Revenue Maintenance Grant (£105k), Stirling University's HEI Income (£96k), ECITB 2017/18 Contract Income (£107k) and a donation due from the ALF (£131k)

- **Bank and cash**

There has been an increase in cash of £104k, which is due to receiving the SAAS HE Discretionary Funding upfront.

Current Liabilities

- **Trade creditors**

Overall Trade Creditors have increased by £122k in comparison with yearend due to spend increasing for the start of the academic year.

- **Accruals**

Overall accruals have reduced by £970k since year end. The balance in accruals is currently £1,069k which is made up of £491k for the retention for the Alloa and Stirling Campus, £579k for a donation that has to be made to the ALF and £72k for Pension Charges from Falkirk Council.

- **Deferred income**

Overall, the deferred income balance has increased by £7k in comparison to the year end. This balance is made of income for the Gallery Christmas Lunches, Flexible Workforce Funding and Commercial Course Bookings relating to November 2017 onwards.

- **Other Creditors**

Other Creditors have reduced by £325k to £1,815k and is a result of the release of Deferred Capital Grant to cover depreciation costs.

- **Long Term Liabilities**

The movement relates to the college drawing down deferred capital grant from SFC for future capital expenditure.

Revenue maintenance (Appendix 3)

This grant is awarded on a fiscal year basis i.e. April to March each year. Appendix 3 shows the current position of the revenue maintenance budget for Fiscal Year 17/18 i.e. from 1st April 2017 to 27th October 2017.

Capital Grant (Appendix 4)

This grant is awarded on a fiscal year basis i.e. April to March each year. The capital grant budget for Fiscal Year 17/18 has now been approved by SMT. Appendix 4 shows the current position from 1st April 2017 to 27th October.

New Falkirk Costs

New Falkirk Costs are currently sitting at £209k, this includes staff costs and ongoing project costs.

5. Financial Implications

These have been noted within the report.

6. Equalities

Assessment in Place? – N/a

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		x
Medium		
Low	x	
Very Low		

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

Risk Owner – Alison Stewart

Action Owner – Irene Andrew

Any additional unplanned losses of revenue or expenditure which would result in a further unplanned deficits could result in a Resource budget overspend which is not acceptable to SFC/SG.

8. Other Implications –

Please indicate whether there are implications for the areas below.

Communications – No

Health and Safety – No

Paper Author – Louise Burnett

SMT Owner – Alison Stewart

Appendix 1

Income and Expenditure							Forth Valley College	
For the Period ended 27th October 2017								
	Y-T-D	YTD	Y-T-D	2017/18	Impact of	2017/18		
	Actual	Budget	Variance	Budget	Changes	Projection		
	£'000	£'000	£'000	£'000	to Budget	£'000	£'000	£'000
Income								
SFC Grants	5,366	5,356	10	21,425		21,425		
Tuition Fees	67	26	40	1,545		1,545		
HEI Tuition Fees	95	166	(71)	1,511	(81)	1,430		
International Income	70	172	(101)	339	(95)	244		
Evening Provision	192	172	20	172		172		
Commercial Training Income	254	309	(54)	856		856		
Modern Apprenticeship Income	933	989	(57)	2,507		2,507		
Catering and Hospitality Income	203	211	(8)	829		829		
Other Income	100	96	3	402		402		
Bank Interest	0	0	0	0		0		
Total Income	7,280	7,497	(217)	29,585	(176)	29,409		
Expenditure								
Salary Costs	5,633	5,501	131	23,789		23,789		
Staff Related Costs	119	117	2	356		356		
Learning and Teaching Materials	190	246	(56)	676		676		
Learning and Teaching Exams and Registration Fees	89	69	20	511		511		
Learning and Teaching Student Support	8	12	(4)	34		34		
Learning and Teaching Other	5	23	(19)	97	(30)	67		
Catering and Hospitality Costs	118	126	(8)	506		506		
Property and FM Costs	314	357	(43)	1,533		1,533		
Equipment Costs	52	74	(22)	192		192		
Marketing and Communication Costs	56	58	(2)	210		210		
Printing Costs	55	89	(33)	231		231		
Finance Costs	129	129	0	322		322		
Governance Costs	55	73	(18)	184		184		
IT Costs	271	301	(29)	430		430		
Telecomms Costs	31	34	(3)	94		94		
Other Costs	55	35	20	112		112		
Total Expenditure	7,181	7,244	(63)	29,275	(30)	29,245		
Recharges								
External Recharges	1	0	0	2		2		
Total Expenditure	1	0	0	2	0	2		
Ongoing Operations Cash Surplus/(Deficit)	99	253	(154)	308	(146)	162		
Non Cash Expenditure								
Holiday Pay Accrual	(347)	(310)	(37)	(6)		(6)		
Net Depreciation	137	35	102	141		141		
Total Non Cash Expenditure	(210)	(275)	65	134	0	134		
Operational Surplus/(Deficit)	309	528	(219)	174	(146)	28		
New Falkirk Campus	209	0	209	0		0		
New Falkirk Costs	209	0	209	0	0	0		
Surplus/(Deficit)	100	528	(428)	174	(146)	28		

Appendix 2

Balance Sheet			
At 27th October 2017			
	Balance at 27th October 2017 £'000	Balance at 31st July 2017 £'000	In Year Movement £'000
Fixed Assets			
Tangible Assets	43,257	43,723	465
Current Assets			
Stocks	24	24	
Trade Debtors	620	572	(48)
Prepayments & Accrued Income	472	1,131	660
Cash	2,714	2,610	(104)
Total Current Assets	3,830	4,337	507
Current Liabilities			
Trade Creditors	755	633	(122)
Other taxation & social security	519	521	3
Accruals	1,141	2,110	970
Deferred income	337	329	(7)
Other Creditors	1,815	2,140	325
Total Current Liabilities	4,566	5,734	1,168
Net current assets/(liabilities)	(736)	(1,397)	(661)
Long term Liabilities			
Pension Provision	7,305	7,305	
Loan Provision	3,905	3,905	
Interest rate SWAP Creditor	586	586	
Net Pension Asset/Liability	19,227	19,227	
Deferred Capital Grants	28,824	28,730	(94)
Total Long term Liabilities	59,847	59,753	(94)
TOTAL	(17,325)	(17,427)	(101)
Reserves			
Pension Reserve	(19,227)	(19,227)	
General Reserve	(3,493)	(3,253)	240
Current year (surplus)/deficit	109	(240)	(348)
Revaluation Reserve	5,286	5,293	7
Total Reserves	(17,325)	(17,427)	(101)
TOTAL	(17,325)	(17,427)	(101)

Appendix 3

Forth Valley College SFC Revenue Maintenance Budget April 17 - March 2018							
Project	Project	Finance Committee Budget	Budget Movements	Current Budget	Actual Per Finance	Committed Per Finance	Remaining Spend based on revised budget
		£			£	£	£
CPRB1801	Landscaping Works - Stirling	15,000	(10,410)	4,590	4,590	0	0
CPRB1802	External Repairs & Maintenance for all Campuses	65,000	33,427	98,427	84,679	36,484	(22,736)
CPRB1803	Internal Repairs & Maintenance for all Campuses	45,000	2,801	47,801	40,103	4,847	2,852
CPRB1804	Asbestos Management - Falkirk Campus	15,000	(1,762)	13,238	13,238	0	0
CPRB1805	Statutory Repairs/replacement (LEV's,Hydrants, Fire, Risers)	30,000	0	30,000	7,097	5,570	17,333
CPRB1806	FF&E	25,000	(11,333)	13,667	8,657	1,204	3,806
CPRB1807	Lifecycle Maintenance across all Campuses	45,000	0	45,000	0	6,770	38,230
CPRB1808	Equipment Re-loaction and Installation	15,000	0	15,000	12,972	164	1,864
CPRB1809	Consultancy	0	14,760	14,760	14,760	0	0
CPCB1801	Staff Workroom Pilot - Stirling	0	51,244	51,244	51,244	0	0
CPRB1810	Compex Workroom	0	25,000	25,000	0	0	25,000
CPRP1899	Contingency	70,000	(52,483)	17,517	(39)	0	17,556
	Total for Maintenance Projects	325,000	51,244	376,244	237,301	55,038	83,905
CPRB1898	Interest on Borrowings	180,000	0	180,000	0	0	180,000
	Total for Maintenance Projects and Interest on Borrowings	505,000	51,244	556,244	237,301	55,038	263,905

Appendix 4

Forth Valley College Capital Budget 17-18							
Project	Project	Finance Committee Budget	Budget Movements	Current Budget	Actual Per Finance £	Committed Per Finance £	Left to Spend £
CPCB1801	Staff Workroom Pilot - Stirling Furniture	205,558	(51,244)	154,314	153,239	1,075	0
CPCB1801	Staff Workroom Pilot - Stirling IT Kit	243,198	0	243,198	203,737	3,233	36,229
CPCB1802	Departmental Equipment	37,183	0	37,183	11,537	0	25,646
	Total Capital Spend on Current Year Projects	485,939	(51,244)	434,695	368,513	4,308	61,874

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