Agenda

13 March 2018
FINANCE COMMITTEE

Falkirk Boardroom, Falkirk Campus at 4.30pm
(Refreshments available from 4.00pm.)

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of meeting of 23 November 2017

3. Matters Arising

   a) F/17/013 – Update on Barclays Covenants

4. Tuition Fees and Fee Waiver Policy Session 2018-19 — David Allison
   (Elements of paper 4 are withheld from publication on the Forth Valley College website under Section 25 Information Otherwise Accessible of the Freedom of Information (Scotland) Act 2002 - https://www.forthvalley.ac.uk/about-us/publications-forms/#other-useful-forms-information-5274)

FOR DISCUSSION

5. Resource Outturn 2017/18 (fiscal year) — Alison Stewart

6. Forecast Outturn 2017/18 (Q2 January 2018) — Alison Stewart
   (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.)

7. Indicative Funding Allocation 2018/19 — Alison Stewart

8. Falkirk Council LGPS – Triennial Valuation — Alison Stewart

9. Review of Risk

10. Any other competent business

FOR INFORMATION

Programme of Committee Business

Boardroom, Falkirk Campus (commencing at 4.00pm)

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

Apologies: None

In Attendance: Mr Ross Martin, Chair of the Board of Management
Dr Ken Thomson, Principal
Mrs Alison Stewart, Vice Principal Finance and Corporate Affairs
Mr Andrew Lawson, Depute Principal and Chief Operating Officer
Mr Paul Johnstone, Procurement Manager
Mrs Jennifer Tempany, Head of Business Development
Mrs Irene Andrew, Head of Finance
Miss Loiuse Burnett, Finance Manager
Mr Stephen Jarvie, Corporate Governance and Planning Officer
Mr Gary Devlin, Scott Moncrieff (For items F/17/20 and 21 only)
Mr Keith McPherson, Ernst & Young (For items F/17/20 and 21 only)
Mr Stephen Reid, Ernst & Young (For items F/17/20 and 21 only)

F/17/011 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/17/012 Minutes of meetings of 12 September 2017

The minutes of the meeting held on 12 September 2017 were approved.

F/17/013 Matters Arising

a) F/16/036 Budget 2017/18

The Vice Principal Finance and Corporate Affairs updated members that Barclays had added a conditions precendent schedule to the legal documentation which the College has queried as these were already satisfied at the time of the facility was put in place. If required by Barclays this updated document may need to be brought to the Board in December for approval.She confirmed however that there was agreement in substance between the parties as to the new covenants .

b) F/17/006 Resource Return 2016/17

The Vice Principal Finance and Corporate Affairs noted that the Chair of the Board of Management had asked for a briefing on Arm's Length Foundations. She confirmed that this woud be provided to him.

c) F/17/008 Forecast Outturn 2016/17

Members had raised queries at the last meeting in relation to Modern Apprenticeship funding. The Vice Principal Finance and Corporate Affairs noted that this would be covered under the Business Development paper.

The Chair of the Board of Management raised the issue of Student Association funding and what opportunities they have for income generation and commercial sponsorship. The Finance Manager provided an overview of Student Association funding streams, both current and historical. The Vice Principal Finance and Corporate Affairs noted that the College also provides some funding to the Student Association to assist with running costs.

F/17/014 Procurement Review

The Procurement Manager provided members with an update on the implementation of the College Procurement Strategy which is a requirement of the Scottish Government's Procurement Reform Act. He noted that, as part of this, an annual report would also need to provided by the College at the end of the current financial year as a statutory requirment.

He reported that the past year had been particularly busy for the College procurement team, with the re-tendering of the College Facilities Management contract and the tendering for the construction of the new Falkirk campus development.

He highlighted that there were good progress against KPIs with the College moving in the right direction from a procurement perspective. He highlighted the increased use of contracting frameworks and also an increase of utilisation of local SMEs to provide College services.

He also highlighted the level of activity that was not contracted or procured from agreed frameworks and confirmed that moving to a framework basis where possible would be a key focus of procurement in the current year. This will be done in conjunction with Heads of Department to generate further value for money in College procurement.

He reported that, under the new Facilites Management contract, the College had ensured that all staff and contracted staff were receiving the living wage.

a) Members noted the content of the report and commended the team for the positive progress made to date.

F/17/015 **Business Development Activity**

The Head of Business Development provided a report outlining the activities of the Business Development department. She focussed specifically on international and commercial activity which continue to prove to be challenging.

She gave members a review of the background of these two areas and outlined the specific challenges that are being faced by the College.

Members noted the intention to refresh and refocus the International Strategy and queried when this work would be completed. The Head of Business Development confirmed that it was intended to have a draft prepared by the end of the year and that this would then be brought back to the March 2018 meeting of the Finance Committee for consideration.

Members welcomed the review and requested that this include a cost/benefit review of potential activity.

The Chair of the Board of Management noted that the Enterprise and Skills Review was looking at international activity and had highlighted fragmentation across the sector.

The Head of Business Development confirmed that there was fragmentation but also noted the amount of collaborative international activity that is undertaken by the College with both other College's and Universities. In addition s She noted that there was also a role for College's Scotland to play in fostering collaboration across the sector.

a) Memebrs noted the content of the report

F/17/016 **Student Funding Outturn for 2016-2017 and Forecast for 2017-18**

The Finance Manager presented a paper on Student Funding activity. She highlighted that there was an underspend in relation to the 2016/17 activity and provided detail on the various student funding streams which contributed to this.

Members noted that the underspend in 2016/17 had been as a result of variances in the number of students expected under the different funding strands and queried whether the College felt they would be able to use the full allocation for 2017/18.

The Finance Manager reported that the performance in 2016/17 had been used to inform projections for spend in the current financial year and that it was anticipated there would be an element of the allocation received by the College for 2017/18 which would be relinquished back to SFC for resistribution.

Members asked about childcare provision and how the College ensures the quality of provision. The Finance Manager outlined the mechanism for childcare provision in the College.

a) Members noted the content of the report

F/17/017 **Budget Monitoring - 2017/18 Qtr 1 (Oct 2017)**

The Head of Finance presented a paper outlining the budgtet as at Quarter 1 of the current financial year. She noted that the surplus is currently lower than anticipated but this was mainly due to phasing and associated timing differences which would be addressed for the Q2 report.

She highlighted areas of concern within the paper and outlined the reasons for this.

Members queried the outturn being projected for the year. The Head of Finance noted that the it would be best to wait for the Q2 report to be compiled to get a more accurate feel for this.

a) Members noted the content of the report

F/17/018 **Review of Risk**

No new risks were identified

F/17/019 **Any Other Competent Business**

None

F/17/020 **Annual Report and Financial Statements 2016/17 (Joint Item with Audit Committee)**

The Chair welcomed the members of the Audit Committee and the Internal and External Auditors who joined the meeting at this point.

The Vice Principal Finance and Corporate Affairs presented the Annual Report and Financial Statement 2016/17 for approval. She highlighted that, owing to the technical accounting treatments the College is required to apply, the performance summary within the document provides the clearest picture as to the current state of the College's financial position, with an underlying operating surplus of £738k.

She also discussed the treatment of the £2m donation from Kelvin College which formed part of the SFC commitment to the new Falkirk campus. Members noted their thanks to the Vice Principal Finance and Corporate Affairs and the whole Finance team.

a) Members endorsed the Annual Report and Financial Statements 2016/17 to the Board of Management for approval

F/17/021 Draft External Audit Annual Report to the Board of Management (Joint Item with Audit Committee)

Mr Stephen Reid, Ernst & Young, presented the Draft External Audit Annual report to members. He confirmed that this is in draft until such time as the financial statements receive Board of Management approval.

He outlined the work carried out by the External Auditors, noted that there had been good cooperation in this work from College staff and confirmed that the report showed a clear position with no adjustments to bring to the attention of Committee members.

He noted the donation from Kelvin College and commended on the early engagement from the College with the External Auditors in how to manage this donation.

The Principal stated that the donation had created a significant amount of work and that he would be feeding this back to SFC.

The Chair noted that the manner in which this money was provided to the College via the donation was unusual but that, notwithstanding the administrative challenges it presented, it was to be welcomed.

The Chair thanked Mr Reid and colleagues from the Ernst and Young audit team for a smooth process which was reflected in the auditor's report.

a) Members approved the Draft External Auditor Annual Report to the Board of Management

4. Tuition Fees and Fee Waiver Policy Session 2018-19
For Approval

13 March 2018
FINANCE COMMITTEE

1. Purpose

To seek approval of the level of tuition fees and fee waiver policy for Session 2018-19 from members. Recommendations will progress for approval by the Board of Management.

2. Recommendation

That members approve the proposed tuitions fees and fee waiver policy for Session 2018-19.

3. Background

The Board of Management has responsibility for determining tuition fees. It is a condition of grant that no fees should normally be charged to home (Scotland) or EU students studying full-time in Scottish further education colleges and the notional fees are set by Scottish Government and published through SFC and the Students Awards Agency for Scotland (SAAS) for these students. These fees have yet to be set, therefore approval of tuition fees will be subject to any changes made to nationally set fees. SFC publishes its Fee waiver grant policy annually, with the latest available policy published for Session 2017-18. Approval of the fee waiver policy will be subject to any changes made to the national policy for Session 2018-19.

4. Key Considerations

Tuition Fees

As mentioned above full time fees are set nationally. It is yet to be confirmed if there are to be any changes from Scottish Government to the notional fees for Session 2018-19, and as such the full time fees are shown below at the same levels as for 2017-18. It should be noted that these fees have not changed over that last seven sessions.

Full time FE: £1,008
Full time HE (HNC/D): £1,285
Full time Degree: £1,820

It's forecasted for Session 2018-19 that 82% of all tuition fees received by the College from mainstream provision will come from full time learners.

SQA fees are a large determinant when setting part time fees. SQA fees for Session 2018-19 have not been released, and no commitment has been made by SQA to the likely timing of this release, or to the likelihood of the value of their fees for next session. SQA hasn't increased fees for the last 7 sessions, and will push to increase its fees for 2018-19, although in recent years Scottish Government has requested that SQA maintain the level of fees.

The Bank of England in its February Inflation Report stated that CPI inflation was tracking at 2.7% An inflationary increase would add £3 to the cost per Credit for an FE course, and £3.50 to the cost per Credit for an HE course. Last session the College chose not to increase our part time fees to remain competitive with neighbouring colleges, however over the previous three sessions when inflation had been low we have increased fees by £5 per Credit. A comparison of our fees against neighbouring colleges has again been undertaken, and our fees for the current session are, with the exception of Dundee and Angus, higher or on a par with other Colleges, with most Colleges last session also not raising their fees. As a comparison of current HE fees, Dundee & Angus charge £140 per Credit, compared to our £130 per Credit, while our nearest neighbours in West Lothian, New College Lanarkshire and Fife currently charge between £110 and £130 per Credit. The most common fee per Credit for part time FE is around £100, which is less than our fee of £115 per Credit. The impact of applying an inflationary 2.7% increase to our part time and Credit based evening provision based on current activity levels could see an additional £8K received through tuition fees. Colleges are being asked to make learning available to all learners, across all modes of learning – increasing the cost of part time fees could be viewed as adding a barrier for part time learners. Taking all information into consideration, the proposal is to keep our fees for part-time and Credit-based evening courses for Session 2018-19 at the same level as Session 2017-18.

It's proposed that the fee for ECDL remains the same, to remain competitive with neighbouring Colleges, and to encourage growth in a revitalised qualification from British Computer Society.

Given the relatively low numbers of direct-entry International and Rest of the UK students it's proposed that fees for International and Rest of the UK remain the same for Session 2018-19. These fees are competitive compared with the average costs in the University sector, and are comparable with other College International fees. These fees are for students enrolling on mainstream courses, and as background, the college enrolled three international students on mainstream courses in Session 2017-18. Bespoke international provision would be priced on an individual contract basis.

It's proposed that re-sit examination fees are not increased. The volume of re-sits is relatively low and the fee reflects administration staff cost.

For any evening courses which fall out-with our standard pricing structure for FE and HE credits, fees will be set on a course by course or contract basis, with course fee/contract price being established through our established costing model.

National Fee Waiver

National Fee Waiver Policy has remained unchanged since Session 2012-13, with the exception of updates to reflect changes to benefit schemes and increases in the threshold levels for means-tested fee-waiver, however the College's Fee Waiver policy will be adapted should there be any changes to the National Policy, once published. As such, there are no changes to this part of the College's fee waiver policy.

Local Fee Waiver

There are no changes proposed to our local fee waiver policy.

Although not part of our local fee waiver policy as an additional benefit to staff where places remain available on courses not eligible for fee waiver (commercial and enhanced fee courses) just prior to courses commencing, these places have been advertised to staff.

5. Financial Implications

Please detail the financial implications of this item – Based on current activity levels it is forecasted that there is potential for an increase of £8K in tuition fees received in Session 2018-19 compared to Session 2017-18 if an inflationary 2.7% increase was applied to our part time fees. This potential additional income will not be realised under this proposal.

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	X
Very Low		

Please describe any risks associated with this paper and associated mitigating actions – The only risk identified is a potential loss of additional income if fees were increased, however comparisons against other Colleges have highlighted that our fees are higher, bar one college.

Risk Owner – David Allison **Action Owner –** Pamela Duncan

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 – Once approved, our tuition fees and fee waiver policy require to be published, and communicated internally to appropriate staff.

Paper Author – Pamela Duncan/David Allison **SMT Owner –** David Allison

5. Resource Outturn 2017/18 (fiscal year)
For Discussion

13 March 2018
FINANCE COMMITTEE

1. Purpose

To inform members of the position relating to the Q4/1 Resource Return for 2017/18, which was submitted to SFC on 22 February 2018 and the Q4/2 return due to be submitted to SFC on 19 March 2018.

2. Recommendation

That members note the content of the Q4 /1 Resource Return that was submitted to SFC in February and approve the Q4/2 Resource Return for submission to SFC. The Q4/2 return will be circulated electronically prior to the meeting as this has still to be finalised.

3. Background

As a result of the reclassification of Further Education Colleges in Scotland, Colleges are treated as part of central government for financial budgeting and reporting purposes and as such, FVC is required to control its expenditure so that is does not exceed pre-set Government budget cover limits.

Scottish Government accounts are prepared on a fiscal year basis of 1 April to 31 March, while Colleges accounts are prepared on a financial year basis of 1 August to 31 July. In order to meet the government's accounting requirements Colleges are required to submit a "Resource Return" on a fiscal year basis under government accounting rules.

4. Cash budget for priorities (previously "net depreciation")

For 2017/18 the sector has been allocated cash budget for priorities which if utilised/spent this cash this would result in an operating deficit in a College's Income & Expenditure Account. However, not using the available cash budget would result in an under spend against resource budget and a build-up of 'frozen' cash equivalent to net depreciation, which would not be acceptable. FVC's actual cash budget for priorities at 31 March 2018 is £404k, however SFC have taken the view that this will be fixed at the 2016/17 net depreciation level of £608k.

SFC has confirmed there are a number of options to ensure surplus cash arising from cash budget for priorities does not get frozen in College accounts and that the cash should be utilised for;

- Repayment of loan debt capital
- 15/16 pay award
- Staff restructuring costs
- Estates related revenue costs
- Others costs (including early retirement provisions)

Once these priorities have been met, other calls on remaining funds will be considered on a case by case basis.

FVC have notified SFC we will utilise the cash budget for priorities through loan repayments. 2015-16 pay award and early retirement pension costs.

5. Resource Return

The Resource Return is attached at Appendix 1. The forecast shows a Revenue Resource underspend of £154k which is equivalent to the value of loan repayments which although utilises cash does not score against the Resource budget. The Capital Resource is forecast to be fully utilised.

6. Financial Implications

By utilising the cash budget for priorities and utilising any in year surplus on the estates development the College will fully utilise its resource budgets and as such this will result in the College reporting an operating deficit at both 31 March 18, the government accounting year end, and 31 July 2018, the College's financial year end.

7. Equalities

Assessment in Place? – Yes ☐ **No** ☒

An equalities assessment is not applicable given the subject matter of the paper.

8. Risk

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

	Likelihood	Impact
Very High		
High		x
Medium		
Low		
Very Low	x	

There is a risk that if the College does not spend the surplus cash generated from the treatment of the cash budget for priorities it will not fully spend its resource budget. This is in turn could result in the cash being frozen and possibly reductions in future budgets.

Risk Owner – Alison Stewart

Action Owner - Alison Stewart

Paper Author – Alison Stewart

SMT Owner – Alison Stewart

Appendix 1

	Budget £'000	Q4.1 Forecast £'000	Variance £'000
Income			
SFC Grant Cash & Student Support	26,004	26,049	45
Other income	8,924	8,929	5
Revenue funding from ALFs	0	131	131
Total Income	**34,928**	**35,109**	**181**
Expenditure			
Wages and salaries	24,018	24,018	0
Operating costs	6,385	6,813	428
Student support expenditure	4,371	4,124	(247)
Total Expenditure	**34,774**	**34,955**	**181**
Under/(overspend) on Resource Budget	**154**	**154**	**0**
Capital DEL			
SFC Capital Grants (Negative)	(403)	(7,645)	0
Income from disposal of non current assets (negative)	0	(2,100)	0
Receipt from ALF (negative)	0	(799)	0
Capital additions to non-current assets	403	10,544	0
Total Capital	**0**	**0**	**0**
Ring Fenced RDEL			
Net Depreciation	296	404	108
Impairment	0	415	415
Total Ring Fenced RDEL	**296**	**819**	**523**

6. Forecast Outturn 2017/18 (Q2 January 2018)
For Discussion

13 March 2018
FINANCE COMMITTEE

1. Purpose

To present the Forecast Outturn for Academic Year 2017-18 to members for discussion.

2. Recommendation

For members to consider the Forecast Outturn for the year to 31 July 2018.

3. Background

A forecasting exercise is carried out to allow us to ensure our financial targets are in line with original budget expectations and to allow us to factor in any changes that have occurred since the Budget was set in June last year.

This report provides a summary of the College's Forecast Outturn for the Academic Year 2017-18 compared to the original budget for 2017-18 that was approved by SMT and Finance Committee in June 2017.

4. Key Considerations

The forecast is showing an operating surplus of £141k against the original surplus of £174k. While overall the position is relatively consistent there are a number of significant variances. The key points to note are:

There has been a significant loss of income in 3 key areas; Tuition fees, Commercial and International. Tuition fees have fallen for 2 reasons, a reduction a Full Time HE numbers and a reduction in the Unit of Teaching Resource (UTR), for some courses which was identified in July 2017 after the Budget was approved. International income has not materialised as projected with the majority of projects included in the budget removed and replaced with new projects forecast to be delivered towards the end of the financial year. Commercial income has also failed to achieve the budgeted target primarily due to a delay in rolling out the planned COMPEX EX11 and EX12 Courses which has led to a reduction in Commercial Income of £75k. Some of the budgeted commercial income has also switched to SFC funding as companies are now accessing the Flexible Workforce Development Fund to pay for commercial training.

The loss of income has been offset in part through the introduction of the Flexible Workforce Development Fund (FWDF), increased evening activity and increased income in relation to Modern Apprentices through additional SDS funding and training charges for CITB. While other income has increased predominately in relation to income for projects and secondments this is matched by additional cost.

Net depreciation

SFC has confirmed that for 2017/18 net depreciation cash can be spent to ensure the Resource Return is fully utilised at 31st March 2018. Therefore the net depreciation will be used to fund the Loan Repayments, Pay Award 2015-16 and Early Retirement Pension Costs.

5. Financial Implications

Overall the forecast operating surplus is line with the original budget. However, international and commercial income will require to be monitored closely as any further loss of income would have a significant impact on the final outturn.

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	x	
Low		
Very Low		

The Forecast is in line with the budget however there is a risk that international and commercial income does not materialise as forecast and which could result in unplanned deficits

Risk Owner – Alison Stewart

Action Owner – Senga McKerr

8. Other Implications

Communications – No

Health and Safety – No

Paper Author – Louise Burnett

SMT Owner – Alison Stewart

Appendix 1

Income and Expenditure		Forth Valley College	
	2017/18 Budget £'000	2017/18 Forecast £'000	Y-T-D Variance £'000
Income			
SFC Grants	21,425	21,733	308
Loan Grant Release	0	0	0
Tuition Fees	1,545	1,477	(68)
HEI Tuition Fees	1,511	1,414	(96)
International Income	339	236	(103)
Evening Provision	172	240	68
Commercial Training Income	856	736	(120)
Modern Apprentice Income	2,507	2,622	116
Catering and Hospitality Income	829	841	12
Other Income	402	528	126
Bank Interest	0	0	0
Total Income	**29,585**	**29,829**	**244**
Expenditure			
Salary Costs	(23,789)	(23,818)	(29)
Staff Related Costs	(356)	(378)	(22)
Learning and Teaching Materials	(676)	(678)	(3)
Learning and Teaching Exams and Registration Fees	(511)	(537)	(26)
Learning and Teaching Student Support	(34)	(33)	0
Learning and Teaching Other	(97)	(107)	(11)
Catering and Hospitality Costs	(506)	(522)	(16)
Property and FM Costs	(1,533)	(1,555)	(22)
Equipment Costs	(192)	(202)	(10)
Marketing and Communication Costs	(210)	(205)	5
Printing Costs	(231)	(224)	6
Finance Costs	(322)	(291)	31
Governance Costs	(184)	(207)	(24)
IT Costs	(430)	(395)	35
Telecomms Costs	(94)	(94)	0
Other Costs	(112)	(155)	(43)
Total Expenditure	**(29,275)**	**(29,402)**	**(127)**
Recharges			
External Recharges	(2)	1	4
Total Expenditure	**(2)**	**1**	**4**
Operating Surplus/**(Deficit)**	**308**	**428**	**120**
New Falkirk Campus Expenditure	(1,103)	(1,103)	0
New Falkirk Campus Income	0	60	(60)
Grants received from ALF	1,103	1,043	60
Total New Falkirk	**0**	**0**	**0**
Surplus/(Deficit)	**308**	**428**	**120**
Non Cash Expenditure			
Net Depreciation	(141)	(232)	(92)
Holiday Pay Accrual	6	(55)	(61)
Total Non Cash Expenditure	**(134)**	**(288)**	**(153)**
Operational Surplus/(Deficit)	**174**	**141**	**(33)**

Income

SFC Grants have increased by £308k, this is due to the Flexible Workforce Development Fund. This fund has been given to SFC, from Scottish Government from the Apprentice Levy to provide employers, who are paying the levy, the chance to upskill and reskill their existing workforce. Approximately £265k will be delivered from the Commercial Courses and £39k within the Teaching Departments. Any additional costs associated with delivery have been built in to the Forecast.

Tuition fees in total have decreased by £68k in comparison with the original budget. This drop in tuition fees is largely as a result of a reduction in the numbers recruited for HE Full Time Programmes.

HEI Tuition Fees have decreased by £96k. At the end of July 2017 Stirling University identified the Unit of Teaching Resource that had been used in the Calculations for 2016-17 had not factored in a reduction in the rate imposed by SFC. This has had an impact on the 2017-18 Forecast, as the Budget was based on the 2016-17 Figures. There has also been a slight reduction in numbers across some of the programmes.

International Income has decreased by £103k. The following contracts were budgeted for in 2017-18 and are now not happening: [redacted] Business development will provide a more detailed update when they present the updated International Strategy in June 2018.

Evening Income has increased by £68k compared with the original Budget. This has been due to an increase in demand for Courses and running additional courses.

Commercial training income has decreased by £120k in comparison with the original income target. Compex is down £75k, this is mainly due to a delay in starting EX11 and EX12 courses. Business Skills is down £6k due to a Train the Trainer course not recruiting. £15k is due the CIPD Foundation Programme not having an intake this session, £8k relates to the Fresh Start Course that runs in Access & Progression, the amount in the Budget did not include the deferral for 2018-19 Fees. The Other VQ Income included a Stretch Target of £25k, however due to the introduction of the Flexible Workforce Fund, part of this will not be achieved and the income is down £16k compared with the original budget.

Modern Apprenticeship income has increased by £116k in comparison with the original budget. SDS approved a further £50k for the 2017/18 Contract, this increases Milestone Income by £44k, due to part of this income being refunded to INEOS. Training Charges has increased by £64k, this is mainly due to a £40k increase in our CITB Contract compared with the original budget, the contract estimated provided by CITB shows an increase in Carpentry & Joinery Courses, however it worth noting that this contract is not signed off by CITB and the College to date. The Balance of £24k is made up of changes to the Modern Apprentice Contracts within Business Development that we would expect to happen now contracts have been finalised.

Catering and hospitality income has increased by £12k, this however offsets an increase in Expenditure.

Other income has increased by £126k in comparison with the original budget. Funded Project Income has increased by £33k, there is £18k to cover the work that is being carried out in conjunction with the Health & Social Care Partnership, £6k to cover the cost of new post as a Mental Health Researcher within Access & Progression and £9k for International Projects. There is expenditure associated with these Projects. Fundraising Income has increased by £28k, there has been funding secured [redacted] run a Mentor Programme for care experienced and looked after Students, there is expenditure also associated with this programme. Secondment Income has increased by £63k, this is linked to a Curriculum Manager's secondment to Stirling Council and there are additional staff costs with in Creative Industries.

Expenditure

Salary Costs have decreased by £29k in comparison with the original budget.

Academic salaries have decreased by £333k. £163k relates to the interpretation of the Guidance released as part of national bargaining. We assumed the Curriculum Managers (CMs) would move to top of their scale point given the difference between our current grading and the new grades and that Lecturers would receive an increment so move up a grade. However when clearer guidance was issued we discovered that the CM increase would be phased in as 25%, 5% and 50% as per the lecturers and the lecturers increments had been built into the calculations for the pay scales.

The rest of the savings relate to savings due to vacancies and the timing of recruitment, secondments and a reduction in posts delivering commercial / international income.

Support Salaries have increased by £181k. This includes the proposed public sector increase of 3% for staff earning £36k or under, 2% for those earning between £36k and £80k and £1,600 for those earning greater than £80k from April 18. This also includes an increase on our employer's pension contribution from 19.9% of pensionable pay to 21.4%. There are also new posts included within the budget, some of which are project funded. These are assumed to be in post by March/April and include a Mental Health Researcher (A&P and funded), Assessors and an Administrator for Flexible Workforce Development Fund, International Recruitment Officer, Mentor Co-ordinator [redacted] MIS Trainer Post, GDPR Co-ordinator post and a Learning & Development Officer. There has been some savings due to the timing of recruitment and a secondment being funded from the New Falkirk Campus budget.

There has been a budget of £30k added to Agency Staff – Academic to cover international work that has been forecast, there is an increase of £16k in Statutory Payments, which we do not budget, £24k increase in overtime, this is due part to cover at reception due to sickness and maternity leave, there is also an overall £7k increase against some over codes.

Staff related costs have increased by £22k in comparison with the original budget, this is mainly down to an error Finance made when uploading the 2017-18 Budget.

Learning & Teaching costs have increased overall by £39k in comparison to the original budget, £27k is linked to teaching registration fees associated with the Flexible Workforce Grant and £10k within other teaching costs.

Catering & Hospitality costs have increased by £16k and is offset by an increase in income.

Property & Maintenance costs have increased by £22k. There has been an increase to the Property Maintenance Budget, this is to cover essential repairs required in Falkirk for health and safety reasons, this includes repairing West Block Roof, potholes in the overflow car park and adding a gate to the car park.

IT & Telecommunications costs have decreased by £35k, there is a £23k saving against the cost of the Computer Software Maintenance Licences have come in at compared with the estimate for the Budget and a £12k saving in Licenses due to the purchase of the anti-plagiarism software being delayed.

Other Costs have increased by £43k in comparison with the original budget. This is mostly due to consultancy to run courses to deliver the Flexible Workforce Funding,

New Falkirk Campus Costs are expected to be £1,103k for 2017-18. [redacted]

Net Depreciation Costs have increased by £92k, this is due to an error in the calculation of Falkirk Campus, after the impairment for 2016-17, and this has now been corrected in the Forecast.

1. Purpose

To inform members of the indicative funding allocations for Academic Year (AY) 2018-19 announced by SFC on 27 February 2018.

2. Recommendation

That members note the indicative allocations for AY 2018-19 and how this affects the College's finances.

3. Background

The SFC announced indicative funding allocations for AY 2018-19 on 27 February 2018.The figures are indicative only and will not be finalised until May 2018. SFC has indicated that should they conclude that an outcome agreement is unsatisfactory they will make the appropriate adjustments to final funding allocations. The SFC circular and sector funding allocations are attached to this paper for information.

4. FE Sector position

SFC decisions on funding are in line with the Minister for Further Education, Higher Education and Science's Letter of Guidance of 30 March 2017.

The key points in this indicative funding announcement for the FE sector for AY 2018-18 are:
• Student activity target has increased, however changes to childcare and ESF have resulted in a slight decrease to the overall activity target of 1%.
• Teaching funding has increased by £4.2 million for additional financial pressures equivalent to a 1% increase. In addition £34.2 million has been allocated to meet the full identified harmonisation cost of national bargaining.
• Core Student support funding has increased by £3.6 million with a further £5.2m million being set aside for the implementation of the Scottish Government's Independent Review of Student Support.
• Capital / maintenance funding has increased by £29.3 million, which includes £42m for the new Falkirk Campus.

The draft Budget document stated that in 2018-19 the Scottish Government

- "..invests around £1.8bn in our colleges and universities – providing a real terms increase in their funding". "This investment funds the teaching, research and innovation that will provide opportunities for our young people, train the workforce of the future and drive our productivity."
- supports "the expansion (of publicly funded childcare entitlement) by upskilling the early years workforce" and provides "funding for graduate level Early Learning and Childcare courses".

The ambitions of the Enterprise and Skills Review, particularly in relation to skills alignment, innovation, internationalisation and securing an improved learner journey post-15 will be driven by the Council's investment and activity in:

- Working in partnership with our colleges and universities to improve Scotland's skills base by providing accessible, high quality learning opportunities, with good outcomes for learners which are aligned to industry needs.
- Enhancing knowledge exchange and delivering impactful research and innovation.
- Supporting our universities and colleges to work collaboratively in developing international partnerships, to attract international students, and to ensure Scotland has the right skills to secure inward investment.
- Focusing efforts in growth employment areas, including through the implementation of the STEM strategy and the expansion of the Early Learning and Childcare workforce.
- Promoting a partnership approach between employers and education, to improve skills alignment and deliver high quality training opportunities to up-skill and re-skill the workforce through the Flexible Workforce Development Fund and other routes.
- To support an improved, more coherent learner journey post-15 by improving the alignment of our learning and skills system."

The Scottish Government also re-stated its commitment to "*maintain at least 116,000 full-time equivalent college places*" and to continue to develop the Flexible Workforce Development fund.

5. Forth Valley College position

Funding Allocations	18/19 Indicative	17/18 Final	Variance against 17/18 final	%
GIA	20,793,053	20,710,100		
Childcare		93,842		
	20,793,053	20,803,942	(10,889)	-0.1%
ESOL (17/18 Strategic Funding)	71,807	75,452	(3,645)	-4.8%
ESF	478,510	535,267	(56,757)	-10.6%
Total Teaching Grant	21,343,370	21,414,661	(71,291)	-0.3%
National Bargaining pay costs	1,169,430		1,169,430	
	22,512,800	21,414,661	1,098,139	5.1%
Student Support	3,807,681	3,984,072	(176,391)	
Childcare	-	21,281	(21,281)	
ESF Student Support	-	21,469	(21,469)	
	3,807,681	4,026,822	(219,141)	-5.4%
Capital & Maintenance	686,107	1,043,370	(237,504)	-18.6%
New Falkirk Campus	42,000,000	19,500,000		

Credits	18/19 Indicative	17/18 Final	Variance against 17/18 final	%
GIA (including Childcare)	84,201	84,647	(446)	-0.5%
ESF	1,816	2,230	(414)	-18.6%
	86,017	86,877	(860)	-1.0%

Grant in Aid Funding (GIA)
Overall GIA funding has increased by 5.1% rather than by the 7% as stated in Table 2 of SFC's circular. It should be noted that this increase relates to the funding for National Bargaining which is not linked to delivery of credits but rather the projected costs of implementing the agreed pay structure for teaching staff. If you exclude the NB funding there is a 0.3% decrease in credit related funding. It should also be noted that there is a reduction of 0.5% (446) core credits.

There are 2 key reasons for the variance from SFC's figures; firstly SFC have reduced the AY 17/18 core teaching comparison figure by the amount of funding that was advanced in July 2017 to cover national bargaining costs for April to July 17. This was notified as an advance of AY 17/18 funding to assist with cashflow issues at the 31 July year end and not a reallocation of funding to AY 16/17 from AY 17/18. In addition SFC have included ESOL funding for AY 18/19 within its calculation but has excluded the comparative 17/18 figure as this was funded from strategic funding rather than "core" funding.

It is worth noting that in 2017/18 SFC received additional funding for Early Learning & Childcare of £1.586m for the delivery of 11,213 credits. For 2018/19 there is no additional funding and the increased sector target of 28,267 credits has now to be delivered from core grant funding. For Forth Valley this in effect means a stopping current delivery in other areas to meet the increased childcare credits target of 1,672 credits.

The funding of National Bargaining costs is now taking priority over the implementation of the simplified funding model, which SFC is reviewing again, and the need to address inequalities in the level of core funding across the sector.

National Bargaining (NB)
The costs of the harmonisation related to national bargaining, down to individual institution level, have been taken from information collated and provided by Colleges Scotland (and validated by SFC). The teaching uplift that SFC is providing in AY 2018-19 will be sufficient to fully meet the agreed and estimated costs of the national bargaining settlement for that year. The figures provided by Colleges Scotland demonstrate that the national bargaining costs in AY 2018-19 will be £32million higher than in AY 2017-18, but to fully fund the agreed settlement, a further £2.1 million is required for changes to annual leave for lecturing staff and additional annual leave for support staff for which no additional funding was provided in AY 2017-18. (This is shown in Table 2).

As Forth Valley College terms and conditions are more generous than those agreed through National Bargaining we have received no funding in this area. No account is taken of the additional costs FVC incurs for these more generous conditions and demonstrates yet further anomalies in the way funding is being allocated. It might also be debatable whether additional costs will actually be incurred by Colleges in relation to increased annual leave.

As noted above the National Bargaining funding is allocated based on figures agreed by Colleges Scotland and SFC which are based on staffing numbers in 2016-17. Some Colleges are currently making efficiencies in their delivery methods which will result in lower lecturer and senior lecturer posts. Under this method of allocating funding they will continue to receive NB funding in relation to posts which have been removed by August 18 and for which no cost is being incurred.

Over time SFC intends to return to a simplified funding model however this will take a number of years to implement to ensure the financial sustainability of those Colleges who are considered to be overfunded.

European Social Funding (ESF)
SFC funding for European Social Fund (ESF) projects for colleges in Lowlands & Uplands Scotland (LUPS) will remain at c.£8 million for 2018-19. The 'Youth Employment Initiative' (YEI) closes at the end of AY 2017-18. From AY 2018-19 therefore, subject to Scottish Government approval to extend SFC's participation in the 'Developing Scotland's Workforce' (DSW) programme from AY 2018-19, all ESF for colleges in LUPS will come through DSW, which focuses on higher level (Higher National) activity. All colleges are eligible, including those previously operating under the YEI.

The overall 2018-19 ESF budget for colleges in LUPS, including ESF match-funding, will total £13.1 million; a decrease of c.£6.6million from 2017-18 due to the lower ESF match-funding contribution under DSW (40%), compared with YEI (66%).

As a consequence of the reduction in the overall ESF funding for the sector, FVC's ESF funding has reduced by 10.6% (£56,757) however when you factor in there is no longer funding for Student Support Childcare costs, the funding has actually reduced by 14.6% (£78,226). There is however a corresponding reduction in the number of credits to be delivered of 18.6% (414 credits).

Student Support
Student support has decreased by 5.4% (£219k) despite SFC providing an inflationary increase of 1.5%. While we are expecting an underspend in 2017/18 of £350k, after taking account of the inflationary increase in funding rates, this level of funding may be sufficient. It is unclear from the SFC circular if there will be any in year redistribution available if it is not sufficient.

Capital & Maintenance
There are three distinct elements to SFC's policy objective to support capital investment in the college sector:

- Meeting the ongoing lifecycle maintenance needs which are essentially the core estate needs, year-on-year, of the sector.
- Tackling the very high priority estates needs identified in the recently completed sector condition survey.
- Continuing to develop and refine an evaluation framework to allow SFC to identify and prioritise major capital projects for campus replacement or refurbishment.

Lifecycle maintenance funding continues to be allocated based on core activity targets.

For financial year (FY) 2018-19 FVC's budget for is £630k for lifecycle maintenance and £56k for high priority backlog maintenance an overall reduction of 18.6% (£238k). While there can be little argument that the allocation for backlog maintenance is unfair given Alloa and Stirling are relatively new campuses and there is capital funding for the new Falkirk Campus, no consideration is given to the fact FVC have to top slice £175k of the lifecycle maintenance for interest payments which does not apply to the majority of Colleges.

If this level of funding is maintained going forward this is below the £1.m lifecycle funding highlighted in the Decision point 4 Report as being required to support the new Falkirk Campus.

6. Flexible Workforce Development Fund

The Flexible Workforce Development Fund (FWDF) was set up in AY 2017-18 as a pilot programme to provide employers with flexible workforce development training opportunities, to support inclusive growth through up-skilling and re-skilling employees. This was in response to feedback from the Scottish Government's consultation on the introduction of the UK Government Apprenticeship Levy.
The FWDF will continue in AY 2018-19 and, in line with AY 2017-18, SFC has set aside £6 million from its core budget and they expect an additional £4 million will be transferred in-year to maintain a total budget of £10 million for AY 2018-19.

SFC will review the success of the pilot year and this will inform the operation and guidance we set out for the continuation of this programme in AY 2018-19. SFC will also consider the individual FWDF allocations to colleges / regions as part of this review process.

7. Financial Implications

The financial implications have been noted in section 5.

8. Equalities - N/a

9. Risk

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

	Likelihood	Impact
Very High		
High		
Medium	X	X
Low		
Very Low		

Whilst SFC continue to allocate funds on a priority basis to areas such as national bargaining, the implementation of a much needed simplified funding model is delayed potentially for a number of years. This results in continued disadvantaged to Forth Valley College in terms of its core funding with a lack of equity, consistency and transparency in how funding is allocated and could impact on performance measures and our commercial competitiveness.

In addition, the reduction in ESF credits and the requirement to deliver increased Early Learning & Childcare provision means there is a risk that we have the wrong mix of lecturers to deliver a changing curriculum, which is being driven by SFC / Scottish Government priorities.

The College should continue to argue for a fair and transparent funding model for the sector and the Principal, VP Finance and Corporate Governance will be seeking a meeting with SFC at the earliest opportunity. There is also a meeting with our Outcome Agreement Manager of 14 March and we will table our position at that meeting.

Risk Owner – Alison Stewart **Action Owner –** Alison Stewart

10. Other Implications –

Communications –No **Health and Safety –No**

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

SFC Announcement

Outcome agreement funding for colleges - indicative allocations for 2018-19

Issue date: 27 February 2018

Reference: SFC/AN/06/2018

Summary: Announcement of indicative college outcome agreement funding allocations for academic year 2018-19.

FAO: Principals/Directors and Board Secretaries of Scotland's colleges

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Scottish Funding Council
Promoting further and higher education

Outcome agreement funding for colleges – indicative allocations for AY 2018-19

1. I am writing to provide you with initial Scottish Funding Council (SFC) decisions on indicative outcome agreement funding for colleges in academic year (AY) 2018-19.

2. The purpose of providing these indicative allocations is to help colleges plan their provision and for SFC to move towards finalised outcome agreements for AY 2018-19.

3. The indicative allocations set out in this announcement are based on the progress colleges have made towards meeting the targets outlined in their previous outcome agreements. Final funding allocations will reflect, in particular, the extent to which the targets and commitments in draft outcome agreements for AY 2018-19 meet SFC's national aspirations, as identified in our outcome agreement guidance. Should SFC conclude that an outcome agreement is unsatisfactory, we will make the appropriate adjustments to final funding allocations.

4. This approach supports the delivery of SFC's Strategic Plan, and is consistent with our wish to intensify outcome agreements, as detailed in the Minister for Further Education, Higher Education and Science's Outcome Agreement Guidance letter of 18 October 2017.

5. The indicative funding decisions set out in this announcement are based on the Scottish Government's draft budget (which was approved by the Scottish Parliament on 21 February 2018) and are in line with the Minister for Further Education, Higher Education and Science's most recent Letter of Guidance to SFC of 30 March 2017.

Key points

6. The key points in this indicative funding announcement for AY 2018-19 are:
   - Teaching funding has been increased to meet the full identified harmonisation costs of national bargaining – an increase of £34.2 million.
   - An additional £4.2 million has been added to teaching grants for other additional financial pressures – equivalent to a 1% increase.
   - The core student activity (credit) target has increased, but changes to childcare and European Social Fund (ESF) have resulted in a slight decrease to the overall activity target of around 1%.
   - Core student support funding has increased by £3.6 million and a further £5.2 million has been set aside for the implementation of the Scottish Government-commissioned Independent Review of Student Support.
   - Capital funding has increased by £29.3 million.

Scottish Budget

7. The Cabinet Secretary for Finance and the Constitution announced the 'Scottish Budget: Draft Budget 2018-19' on 14 December 2017, stating that the Draft Budget:

   - "…invests around £1.8bn in our colleges and universities – providing a real terms increase in their funding". "This investment funds the teaching, research and innovation that will provide opportunities for our young people, train the workforce of the future and drive our productivity."
   - supports "the expansion (of publicly funded childcare entitlement) by upskilling the early years workforce" and provides "funding for graduate level Early Learning and Childcare courses".

8. The Draft Budget document stated that "through the Scottish Funding Council, we invest around £1.8 billion in Scotland's colleges and universities to fund teaching, research and innovation activities for Scotland's learners. The ambitions of the Enterprise and Skills Review, particularly in relation to skills alignment, innovation, internationalisation and securing an improved learner journey post-15 will be driven by the Council's investment and activity in:

   - Working in partnership with our colleges and universities to improve Scotland's skills base by providing accessible, high quality learning opportunities, with good outcomes for learners which are aligned to industry needs.
   - Enhancing knowledge exchange and delivering impactful research and innovation.
   - Supporting our universities and colleges to work collaboratively in developing international partnerships, to attract international students, and to ensure Scotland has the right skills to secure inward investment.
   - Focusing efforts in growth employment areas, including through the implementation of the STEM strategy and the expansion of the Early Learning and Childcare workforce.
   - Promoting a partnership approach between employers and education, to improve skills alignment and deliver high quality training opportunities to up-skill and re-skill the workforce through the Flexible Workforce Development Fund and other routes.
   - To support an improved, more coherent learner journey post-15 by improving the alignment of our learning and skills system."

9. The Draft Budget document also stated that, in 2018-19, the Scottish Government will:

- “Deliver a real-terms increase in SFC funding, including a real-terms increase in college budgets.
- Work in partnership with our colleges to provide high quality learning and teaching; improve Scotland’s skills base; enhance knowledge exchange; and maximise the impact of research, innovation and internationalisation in line with the recommendations of the Enterprise and Skills Review.
- Contribute to the ambitions of the Strategic Board for Enterprise and Skills, and drive improved skills alignment and investment, alongside Skills Development Scotland.
- Work with the college sector to address gender equality at all levels from course choices to senior staff and boards.
- Contribute to the implementation of the STEM strategy, in particular increasing participation in STEM study at colleges.
- Support the expansion of the Early Learning and Childcare workforce.
- Provide additional investment of over £5 million for initial implementation of the findings of the Independent Review of Student Support.
- Maintain at least 116,000 full-time equivalent college places, meeting the needs of learners and the economy, raise attainment levels and increase the numbers of students successfully completing courses and achieving qualifications.
- Continue to develop the Flexible Workforce Development Fund to promote partnership working between colleges and employers to deliver high quality training opportunities to up-skill and re-skill the workforce.”

Overall funds available for college sector

10. The draft Further Education (FE) Resource budget for financial year (FY) 2018-19 was announced as £588.2 million; a £36.9 million (6.7%) increase from FY 2017-18.

11. The draft Net College Capital budget has increased by £29.3 million to £76.7 million. This budget includes a capital funding commitment of £42 million for Forth Valley College’s new estate project.

12. In setting SFC's indicative Academic Year (AY) budget for 2018-19, we span two Financial Years (FYs) 2018-19 and 2019-20. We do not have any information on the Scottish Government's plans for FY 2019-20 and beyond, and as such have planned on the basis of flat cash. On that basis, SFC has set an FE Revenue budget for AY 2018-19 of £599.9 million as shown in Table 1, which represents an increase of £45.9 million (8.3%) compared with AY 2017-18. This is the FY budget converted to an AY budget, taking account of the proportion of the FY 2018-19 budget that is already committed to AY 2017-18.

Teaching funding

13. As set out in Table 2, for AY 2018-19 SFC has increased its core teaching funding grant by £40.1 million, from £414.6 million to £454.7 million; an overall increase of 9.7%.

National bargaining costs

14. The costs of the harmonisation related to national bargaining, down to individual institution level, are taken from information collated and provided by Colleges Scotland (and validated by SFC). The teaching uplift that SFC is providing in AY 2018-19 will be sufficient to fully meet the agreed and estimated costs of the national bargaining settlement for that year. The figures provided by Colleges Scotland demonstrate that the national bargaining costs in AY 2018-19 will be £32 million higher than in AY 2017-18, but to fully fund the agreed settlement, a further £2.1 million is required for changes to annual leave for lecturing staff and additional annual leave for support staff for which no additional funding was provided in AY 2017-18. (This is shown in Table 2.)

15. The uplift for national bargaining amounts to 8.3% overall. However, the uplifts for individual colleges/regions range from 4.2% at West College Scotland to 19.6% for the Highlands & Islands region (although there are some very specific additional costs for some very small colleges).

16. In AY 2018-19 we are providing an uplift to all college/region teaching allocations to ensure that there are sufficient funds to meet the full cost of national bargaining (pay and terms of conditions). This means that not all colleges/regions need or have received the same increase. Over time, SFC intends to return to a simplified 'price x volume' model. We have compared college/region funds calculated through the model with the uplift needed to secure the national bargaining costs, and the difference equates to an institutional element which we are funding in AY 2018-19.

17. This 'institutional element' will be gradually reduced over time once the transition to the harmonised terms and conditions is fully implemented.

This eventual reduction for some colleges will be offset, at least partially, by an increase in the unit price for teaching funding.

18. It remains a condition of this additional funding that colleges are party to the recent agreement between colleges and EIS-FELA or are mirroring the national bargaining agreement for lecturing and support staff pay and conditions. Where a college has not agreed to pay staff in line with the national bargaining agreement, we will withhold this funding.

Additional uplift to teaching grant

19. Colleges are also facing other financial pressures, which are not fully addressed by the uplift for national bargaining costs. SFC has, therefore, provided an additional increase to teaching grants of 1%, at a cost of £4.2 million. This is shown in Table 2.

Rural and Remoteness review

20. Following SFC's consultation on rurality funding, we have increased the Rural and Remoteness premium for the colleges that are now categorised as rural and remote; an increase of £1 million, as shown in Table 2. This is based on our view of the longer term sustainability of colleges and prioritising small colleges with less opportunity for efficiencies and supporting dispersed campuses across the region.

21. This indicative allocation of the additional £1 million will be subject to discussion and agreement on outcomes with colleges / regions. Subject to satisfactory conclusion they will be confirmed in our final funding allocations.

22. For those institutions (Dundee & Angus and SRUC) which are no longer categorised as 'rural and remote' under our new definition, SFC will continue to provide a sustainable level of funding in order to protect their dispersed provision. This will be an institutional element that we will provide through the outcome agreement process. We intend to discuss and agree, with both institutions, the outcomes we expect in return for this resource.

English for Speakers of Other Languages

23. As previously communicated, SFC has transferred £1.5 million of English for Speakers of Other Languages (ESOL) funding from Strategic funds to core Teaching grant, as shown in Table 2. This was a small top-up grant for ESOL to be delivered by college and Community Planning Partnerships (CPPs). SFC still expects colleges to work with CPPs and we will monitor all ESOL activity through our outcome agreement process.

AY 2018-19 student activity targets

24. The Scottish Government has reaffirmed its commitment to maintain 116,000 Full-time Equivalent (FTE) student places. SFC uses its demographic model to inform the decision of the allocation of places to colleges/regions and we have updated that model to take account of the increased priority for older learners and part-time study. Our demographic model always worked in partnership with other indicators such as historic performance against activity targets.

25. For AY 2018-19, SFC has set the sector core student activity target at 1.7 million credits. Table 3 shows the original core activity target for AY 2017-18 and any in-year redistribution of college activity, which we have taken as our starting point for AY 2018-19.

Early Learning and Childcare workforce

26. The Scottish Government Draft Budget states that SFC should "*support the expansion of the Early Learning and Childcare (ELC) workforce*". In AY 2017-18 SFC received additional funds, over and above its core budget, to provide additional college (and university) places. For AY 2018-19, SFC is expected to fund this activity at colleges as a priority from its own core funds and there will be no additional funding provided by the Scottish Government for this purpose.

27. In AY 2017-18 colleges were expected to deliver over 11,213 additional credits. SFC has been working with colleagues in the Scottish Government Early Years Education Division and, to meet their target output for trained ELC professionals, we will require an increase in childcare activity in AY 2018-19, to deliver an additional 28,267 credits (on top of baseline), as shown in Table 3A.

European Social Funding

28. SFC funding for European Social Fund (ESF) projects for colleges in Lowlands & Uplands Scotland (LUPS) will remain at c.£8 million for 2018-19. The '*Youth Employment Initiative*' (YEI) closes at the end of AY 2017-18. From AY 2018-19 therefore, subject to Scottish Government approval to extend SFC's participation in the '*Developing Scotland's Workforce*' (DSW) programme from AY 2018-19, all ESF for colleges in LUPS will come through DSW, which focuses on higher level (Higher National) activity. All colleges are eligible, including those previously operating under the YEI.

29. The overall 2018-19 ESF budget for colleges in LUPS, including ESF match-funding, will total £13.1 million; a decrease of c.£6.6 million from 2017-18 due to the lower ESF match-funding contribution under DSW (40%), compared with YEI (66%).

30. Indicative ESF funding is set out in Table 2 and additional ESF activity (credit) targets are shown in Table 3. The additional ESF credit targets are for HN-level activity and, therefore, SFC has not allocated any additional ESF student support funding. Childcare costs arising from the additional ESF activity will be met through core student support (childcare) budgets. As shown Tables 2 and 3, the reduction in AY 2018-19 (compared with AY 2017-18) in college teaching funding for ESF is £1.1 million. Indicative ESF activity targets for AY 2018-19 have reduced by c.11,000 credits.

31. The above excludes University of the Highlands and Islands (UHI)-partner colleges in the Highlands & Islands (H&I) region which, under a separate DSW operation for the H&I transition region, will receive SFC funding from HE strategic funds.

Flexible Workforce Development Fund

32. The Flexible Workforce Development Fund (FWDF) was set up in AY 2017-18 as a pilot programme to provide employers with flexible workforce development training opportunities, to support inclusive growth through up-skilling and re-skilling employees. This was in response to feedback from the Scottish Government's consultation on the introduction of the UK Government Apprenticeship Levy.

33. The FWDF will continue in AY 2018-19 and, in line with AY 2017-18, SFC has set aside £6 million from its core budget and we expect an additional £4 million will be transferred in-year to maintain a total budget of £10 million for AY 2018-19.

34. SFC will review the success of the pilot year and this will inform the operation and guidance we set out for the continuation of this programme in AY 2018-19. We will also consider the individual FWDF allocations to colleges / regions as part of the review process.

College/university articulation places

35. Streamlining the learner journey by encouraging articulation between colleges and universities remains a priority for SFC. This was further emphasised in a letter to the Chair of SFC, dated 18 October 2017, which set out the Minister's expectations that "SFC, alongside universities and colleges, closely monitors the expansion of articulation to ensure it continues to support disadvantaged learners to progress to degree level study. Where this is not achieved my expectation is, in line with the recommendation, that a proportion of articulation places will be prioritised for disadvantaged learners".

36. To support this priority area, SFC has reviewed the additional articulation places (associate students) scheme. The scheme has proved successful in increasing

the number of articulating students and – with some minor exceptions – the additional places have been filled. We are, therefore, proposing no change to the additional articulation places scheme for AY 2018-19 (and AY 2019-20), subject to satisfactory outcome agreement targets with the universities that receive these places. Colleges (and universities) should continue with current arrangements to meet the priorities set out by the Minister to expand articulation and ensure it continues to support disadvantaged learners to progress to degree level study.

37. As discussed and emphasised in previous SFC guidance, we expect 75% of funding for those years in which activity is delivered in colleges to be transferred from universities to colleges. SFC will continue to monitor the transfer and impact of this funding and, subject to budget availability, will continue these arrangements.

Student support

38. For AY 2018-19 SFC has provided an inflationary (GDP) increase of 1.5% to the student support bursary, childcare rates and discretionary fund. In AY 2017-18 the core student support funding totalled £107.4 million. The cost of this inflationary uplift is £1.6 million.

39. The amount of student support needed by colleges in any year is always difficult to predict and in AY 2017-18 we set aside an additional £2 million for the in-year redistribution. These funds were not needed for the in-year redistribution in AY 2017-18. However, given the change of profile for ESF students, SFC would need to fund more FE students from core funding for AY 2018-19. Therefore, we have included the additional £2 million to our initial allocation bringing the total student support allocation for AY 2018-19 to £111 million. Individual allocations are based on colleges' actual student support spend in AY 2016-17, as shown in Table 4.

40. SFC has also ring-fenced £5.2 million for the implementation of the Independent Review of Student Support, commissioned by the Scottish Government.

Strategic funds

41. The indicative AY 2018-19 budget for strategic projects and grants has provisionally been set at £14.9 million, which will allow SFC to meet all current strategic funding commitments. This is primarily the AY 2017-18 strategic fund budget, adjusted by £1.45 million for ESOL (see paragraph 23).

42. There has also been an adjustment for Lanarkshire region which received an additional uplift of £750k to their Access and Inclusion Premium from strategic

funds in AY 2017-18. For AY 2018-19 we have included this uplift in core teaching but this will be subject to the delivery of satisfactory outcomes.

Capital

43. There are three distinct elements to the Council's policy objective to support capital investment in the college sector:

- Meeting the ongoing lifecycle maintenance needs which are essentially the core estate needs, year-on-year, of the sector.

- Tackling the very high priority estates needs identified in the recently completed sector condition survey.

- Continuing to develop and refine an evaluation framework to allow SFC to identify and prioritise major capital projects for campus replacement or refurbishment.

44. The total Capital funding budget for colleges in FY 2018-19 is £76.7 million; an increase of £29.3 million from FY 2017-18. In addition there is £5.8 million available from project slippage in FY 2017-18, giving an overall total for FY 2018-19 of £82.5 million.

45. Taking into account estate project funding commitments, including £42 million for Forth Valley College's new campus project, this increased budget will be used as shown below:

College Capital FY 2018-19	**£M**
Lifecycle maintenance	12.5
Very high priority backlog maintenance (as informed by the sector condition survey)	26.9
Forth Valley College – new Falkirk Campus project	42.0
New College Lanarkshire – loan repayment	1.1
Total	**82.5**

Lifecycle maintenance

46. Funding for college lifecycle maintenance represents SFC's contribution to the sector's core estate needs as the year-on-year costs of running the college estate. We have allocated £12.5 million in FY 2018-19 for college lifecycle costs. Funding has been allocated in proportion to activity (credit) targets, as a proxy for the size of a college's estate.

Very high priority backlog maintenance

47. SFC is providing £26.9 million for very high priority backlog maintenance in FY 2018-19, as informed by the sector estate condition survey. Through the outcome agreement process we will ensure that each college / region uses these funds to address their very urgent needs.

48. Sector-wide indicative capital funding allocations for both lifecycle maintenance and high priority backlog maintenance are shown in Table 5.

Indicative funding tables for AY 2018-19

49. We have attached the following tables:

- Table 1 – College sector – overall indicative budget.
- Table 2 – Indicative funding allocations.
- Table 3 – Indicative credit targets.
- Table 3A – Indicative childcare credit targets.
- Table 4 – Indicative student support funding allocations.
- Table 5 – Indicative capital funding (FY 2018-19).

Further Information

50. SFC will confirm AY 2018-19 funding allocations and provide further information in our Final Outcome Agreement Funding announcement in May 2018.

51. Please contact Lorna MacDonald, Director of Finance, tel: 0131 313 6690, email: lornamacdonald@sfc.ac.uk or Martin Smith, Chief Funding & Information Officer, tel: 0131 313 6528, email: msmith@sfc.ac.uk.

Lorna MacDonald
Director of Finance

Table 1: College sector - Overall indicative budget for AY 2018-19

Revenue funding	**AY 2018-19** *£000*	**AY 2017-18** *£000*
Core Teaching & fee waiver funding	413,972	413,374
Early Years Education		1,586
Funding for additional credits for Glasgow region		203
National Bargaining Costs	34,158	-
Additional Financial Pressures	4,154	
Rural & Remoteness uplift	1,000	
ESOL transfer from Strategic funds	1,455	
Total Teaching	**454,739**	**415,163**
Core Student Support	**111,041**	**109,790**
Student Support Review	5,200	
SFC contribution to ESF programme activity	8,000	8,000
Flexible Workforce Development Fund	10,000	10,000
Strategic funds	14,881	16,962
Total Revenue funding (includes ring-fenced amounts shown below)	**603,861**	**559,915**

SG Ring-Fenced Funds		
Flexible Workforce Development Fund - to be confirmed	4,000	4,000
Total SFC excluding ring-fenced grants	**599,861**	**555,915**
ESF Teaching Grant	**5,135**	**5,135**

Capital funding	**FY 2018-19** *£000*	**FY 2018-19** *£000*
College Lifecycle Maintenance	**12,500**	**20,800**
Condition Survey: Very High Priority Backlog Maintenance	**26,900**	**2,000**
Project Funds		
Forth Valley College: new Falkirk Campus	42,000	19,500
Fife College: non-NPD costs		3,800
New College Lanarkshire: loan repayment (former Coatbridge Campus)	1,100	1,100
Total Capital projects	**43,100**	**24,400**
Total Capital funding	**82,500**	**47,200**

College NPD expenditure	**29,300**	**29,100**

Table 2: Indicative funding allocations for AY 2018-19

Indicative funding allocations including European Social Funding (ESF) a

College/Region	Final core teaching funding allocation (excluding Childcare) 2017-18	Additional Childcare funding 2017-18	**Indicative core teaching funding (including Childcare) 2018-19**	Funding for National Bargaining (unfunded in 2017-18)	Funding for National Bargaining costs 2018-19	Total funding for National Bargaining costs 2018-19	Additional financial pressures	Additional Rural & Remoteness funding	ESOL transfer from Strategic funds	**Indicative core teaching funding allocation 2018-19**	Funding percentage change from 2017-18	ESF teaching (credit) funding 2017-18	**ESF teaching (credit) funding 2018-19**	Total teaching funding including ESF 2017-18	**Total teaching funding including ESF 2018-19**
	£	£	**£**	£	£	£	£	£	£	£	%	£	**£**	£	**£**
Ayrshire College	32,755,755	158,199	**32,740,573**	0	1,978,002	1,978,002	329,140	0	104,834	**35,152,549**	7.3%	306,939	**223,293**	33,220,893	**35,375,842**
Borders College	7,486,353	41,280	**7,487,980**	26,548	628,748	655,296	75,276	200,000	21,004	**8,439,556**	12.7%	150,285	**134,524**	7,677,918	**8,574,079**
Dumfries & Galloway College	8,768,703	37,947	**8,760,259**	48,711	611,765	660,475	88,067	200,000	25,191	**9,733,992**	11.0%	0	**0**	8,806,650	**9,733,992**
Dundee & Angus College[1]	24,736,432	88,971	**24,694,630**	149,664	1,857,699	2,007,362	248,254	0	89,997	**27,040,244**	9.3%	1,222,965	**1,154,055**	26,048,368	**28,194,299**
Edinburgh College	41,108,102	242,554	**41,132,833**	341,088	2,245,075	2,586,163	413,507	0	155,372	**44,287,875**	7.7%	476,300	**348,082**	41,826,956	**44,635,957**
Fife College	31,339,583	164,609	**31,338,237**	168,991	2,443,038	2,612,029	315,042	0	110,765	**34,376,073**	9.7%	716,813	**628,510**	32,221,005	**35,004,583**
Forth Valley College	20,601,276	93,842	**20,586,102**	0	1,169,430	1,169,430	206,951	0	71,807	**22,034,291**	7.0%	535,267	**478,510**	21,230,385	**22,512,801**
Glasgow Region	81,739,015	137,174	**81,444,890**	255,018	6,184,795	6,439,812	818,762	0	322,352	**89,025,816**	8.9%	4,815,398	**4,566,278**	86,691,587	**93,592,094**
Highlands & Islands Region	36,190,387	0	**35,999,747**	568,957	6,509,039	7,077,996	361,904	400,000	92,147	**43,931,793**	21.4%	298,104	**0**	36,488,491	**43,931,793**
Lanarkshire Region[3]	41,263,512	230,503	**41,279,388**	255,652	3,210,276	3,465,928	407,440	0	153,482	**45,306,238**	9.8%	3,044,009	**3,155,524**	44,538,024	**48,461,762**
Newbattle Abbey College	692,028	0	**688,383**	12,873	148,382	161,256	6,920	0	0	**856,559**	23.8%	0	**0**	692,028	**856,559**
North East Scotland College	30,025,591	142,558	**30,009,232**	163,875	1,489,916	1,653,792	301,681	200,000	114,261	**32,278,967**	7.5%	716,847	**624,285**	30,884,996	**32,903,252**
Sabhal Mòr Ostaig	655,029	0	**651,579**	41,216	1,086,116	1,127,332	6,550	0	0	**1,785,461**	172.6%	0	**0**	655,029	**1,785,461**
SRUC[2]	8,980,193	0	**8,932,888**	0	0	0	89,802	0	18,989	**9,041,679**	0.7%	0	**0**	8,980,193	**9,041,679**
West College Scotland	38,471,104	179,480	**38,446,984**	0	1,615,775	1,615,775	386,506	0	138,423	**40,587,689**	5.5%	1,732,847	**1,626,517**	40,383,431	**42,214,206**
West Lothian College	9,760,675	69,228	**9,778,122**	79,828	867,722	947,551	98,299	0	36,377	**10,860,348**	11.3%	224,639	**195,279**	10,054,542	**11,055,628**
Scotland	414,573,741	1,586,345	**413,971,828**	2,112,422	32,045,778	34,158,200	4,154,101	1,000,000	1,455,000	**454,739,128**	9.7%	14,240,413	**13,134,857**	430,400,496	**467,873,985**

Table 3: Indicative credit targets for AY 2018-19

College/Region	Final core credit targets (excluding Childcare) 2017-18	ESF activity targets 2017-18	Total activity targets 2017-18	Indicative core credit targets (including Childcare) 2018-19	Indicative ESF activity targets 2018-19	**Total activity target 2018-19**
	Credits	*Credits*	*Credits*	*Credits*	*Credits*	***Credits***
Ayrshire College	124,252	1,255	125,507	124,710	871	**125,581**
Borders College	24,521	574	25,095	24,682	478	**25,160**
Dumfries & Galloway College	30,067	0	30,067	30,176	0	**30,176**
Dundee & Angus College	103,232	5,101	108,333	103,314	4,494	**107,807**
Edinburgh College	184,028	2,000	186,028	184,764	1,357	**186,121**
Fife College	129,760	3,005	132,765	130,234	2,451	**132,685**
Forth Valley College	83,984	2,230	86,214	84,201	1,816	**86,018**
Glasgow Region	369,574	20,383	389,957	368,592	17,554	**386,145**
Highlands & Islands Region[1]	110,967	1,200	112,167	110,382	0	**110,382**
Lanarkshire Region	170,967	14,766	185,733	171,687	12,169	**183,856**
Newbattle Abbey College	926	0	926	921	0	**921**
North East Scotland College	134,118	3,035	137,153	134,414	2,460	**136,873**
Sabhal Mòr Ostaig	803	0	803	799	0	**799**
SRUC[2]	22,867	0	22,867	22,747	0	**22,747**
West College Scotland	159,025	7,086	166,111	159,449	6,368	**165,817**
West Lothian College	42,527	972	43,499	42,790	786	**43,575**
Scotland	1,691,618	61,607	1,753,225	1,693,861	50,804	**1,744,665**

[1] - *Colleges in the Highlands & Islands transitional region will be allocated ESF activity/funding through a separate HE grant to the University of the Highlands & Islands (UHI).*

[2] - *SRUC will be allocated ESF activity/funding through HE funding.*

Table 3A: Indicative Childcare credit targets for AY 2018-19

College/Region	Baseline Childcare credits (prior to ELC expansion)	Additional credits for Childcare 2018-19	Credits for PDAs 2018-19	Credits for HNCs 2018-19	**Total Childcare credits (to be sourced from core credit targets) 2018-19**
	Credits	*Credits*	*Credits*	*Credits*	***Credits***
Ayrshire College	2,670	2,819	0	5,489	**5,489**
Borders College	464	736	0	1,200	**1,200**
Dumfries & Galloway College	602	676	0	1,278	**1,278**
Dundee & Angus College	1,497	1,585	0	3,082	**3,082**
Edinburgh College	2,317	4,322	350	6,289	**6,639**
Fife College	1,757	2,933	0	4,690	**4,690**
Forth Valley College	1,011	1,672	0	2,683	**2,683**
Glasgow Region	3,179	3,753	1,400	5,532	**6,932**
Highlands & Islands Region[1]	0	0	0	0	**0**
Lanarkshire Region	4,420	2,799	0	7,219	**7,219**
Newbattle Abbey College[2]	0	0	0	0	**0**
North East Scotland College	600	2,540	250	2,890	**3,140**
Sabhal Mòr Ostaig[2]	0	0	0	0	**0**
SRUC[2]	0	0	0	0	**0**
West College Scotland	1,616	3,198	0	4,814	**4,814**
West Lothian College	1,407	1,234	0	2,640	**2,640**
Scotland	21,540	28,267	2,000	47,807	**49,807**

[1] - *Colleges in the Highlands & Islands region are allocated Childcare activity/funding through HE funding.*

[2] - *Newbattle Abbey College, Sabhal Mòr Ostaig and SRUC do not receive Childcare activity/funding.*

Table 4: Indicative Student Support funding allocations AY 2018-19

College / Region	student support spend 2016-17	Core student support funding 2017-18	Percentage share of student support spend 2016-17	**Total student support funding 2018-19[1]**
	£	£	%	**£**
Ayrshire College	9,488,544	10,029,447	8.7%	**9,642,142**
Borders College	1,641,570	1,986,515	1.5%	**1,668,143**
Dumfries & Galloway College	1,758,682	2,030,532	1.6%	**1,787,151**
Dundee & Angus College	7,526,576	6,894,874	6.9%	**7,648,414**
Edinburgh College	9,095,918	10,165,335	8.3%	**9,243,160**
Fife College	7,584,276	8,801,090	6.9%	**7,707,048**
Forth Valley College	3,747,025	3,984,072	3.4%	**3,807,681**
Glasgow Region	21,806,506	19,042,922	20.0%	**22,159,503**
Highlands & Islands Region	8,420,103	8,588,398	7.7%	**8,556,405**
Lanarkshire Region	13,560,772	12,140,441	12.4%	**13,780,289**
Newbattle Abbey College	218,147	242,916	0.2%	**221,678**
North East Scotland College	7,787,748	8,171,312	7.1%	**7,913,814**
Sabhal Mòr Ostaig	0	23,071	0.0%	**0**
SRUC	2,184,565	2,105,400	2.0%	**2,219,928**
West College Scotland	11,388,127	10,213,005	10.4%	**11,572,474**
West Lothian College	3,064,021	3,010,670	2.8%	**3,113,620**
Scotland	109,272,580	107,430,000	100.0%	**111,041,450**

[1] - *As in previous years, there will be a planned in-year redistribution in 2018-19. In 2017-18, £4,178,499 was provided for the in-year redistribution.*

Table 5: Indicative capital funding for FY 2018-19

College/Region	FY 2018-19 indicative capital for lifecycle maintenance based on share of volume target	FY 2018-19 indicative capital based on gross very high priority backlog maintenance	**Total indicative capital funding based on lifecycle & high priority backlog maintenance (college estate survey) for FY 2018-19**
	£	£	**£**
Ayrshire College	932,882	2,764,749	**3,697,631**
Borders College	184,632	76,494	**261,126**
Dumfries & Galloway College	225,727	155,301	**381,028**
Dundee & Angus College	772,831	1,235,693	**2,008,524**
Edinburgh College	1,382,113	2,673,397	**4,055,511**
Fife College	974,204	1,693,221	**2,667,425**
Forth Valley College	629,862	56,245	**686,107**
Glasgow Region	2,757,223	3,494,799	**6,252,022**
Highlands & Islands Region	825,708	3,844,150	**4,669,858**
Lanarkshire Region	1,284,292	6,180,455	**7,464,747**
Newbattle Abbey College[1]	0	97,316	**97,316**
North East Scotland College	1,005,473	1,464,603	**2,470,076**
Sabhal Mòr Ostaig[1]	0	120,257	**120,257**
SRUC	170,154	0	**170,154**
West College Scotland	1,192,748	3,003,981	**4,196,729**
West Lothian College[2]	162,150	34,579	**196,728**
Scotland	12,500,000	26,895,240	**39,395,240**

[1] - *Newbattle Abbey College and Sabhal Mòr Ostaig do not receive capital for lifecycle maintenance funding.*

[2] - *West Lothian College's capital funding is adjusted to reflect the repayment of a loan.*

8. Falkirk Council LGPS – Triennial Valuation
For Discussion

13 March 2018
FINANCE COMMITTEE

1. Purpose

To provide members with an update on the outcome of the recent triennial valuations of the Falkirk Council Local Government Pension Scheme (LGPS) the College participates in.

2. Recommendation

That members note the impact of increased employer pension contributions on the College's finances.

3. Background

The College participates in the Local Government Pension scheme (LGPS) which is accounted for as a defined benefit scheme under the provisions of FRS 17. Falkirk Council is one of the 11 fund administering authorities responsible for the administration of the scheme.

4. LGPS Valuation

The Falkirk Council LGPS triennial valuation was completed at 31 March 2017 a copy of which is attached to this paper. The results of which for Forth Valley College are noted below.

	2017	2014	2011	2008
Past Service Provision	£'000	£'000	£'000	£'000
Past service liabilities	38,473	27,289	20,412	17,264
Market Value of Assets	35,912	24,090	18,197	13,437
Surplus/Deficit	(2,561)	(3,199)	(2,215)	(3,827)

Funding Level	93%	88%	89%	78%

Contributions	%	%	%	%
Future Service Rate	19.3	17.9	16.6	
Past Service Adjustment (20 year spread)	2.1	3.3	2.8	
Total Contribution Rate	21.4	21.2	19.4	

The past service deficit has decreased by £638k and the overall funding level of the scheme has increased by 5% to 93%. Despite the improved funding level of the scheme employers contributions will continue to increase over the next 3 year. There main reasons for this are:

- Expectations for fund investment returns are lower than what was achieved over the last 3 years
- In 2014 the 50/50 scheme was introduced and it was assumed around 10% may take up this option however uptake was significantly lower.

In 2014 the College's contribution rate should been 21.2% however due to the stabilisation mechanism which restricts annual increase to 0.5% p.a. the actual rate was lower. The College's total contribution rate at 31 March 2018 is 20.9%. From 1 April 2018 this will increase by 0.5% p.a. for the next 3 years. The contribution rates going forward are therefore;

2018/19 21.4%
2019/20 21.9%
2020/21 22.4%.

It is also worth noting that the cessation valuation (i.e. the cost for the College to exit the scheme) has increased from £16.113m in 2014 to £23.186m in 2017.

5. Financial Implications

Increased employer's contribution rates will result in additional annual pension costs of approximately£35k p.a.

6. Equalities

Assessment in Place? – Yes ☐ **No** ☒

If No, please explain why – Not applicable

7. Risk

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

	Likelihood	Impact
Very High		
High		
Medium	x	x
Low		
Very Low		

Please describe any risks associated with this paper and associated mitigating actions
The liabilities relating to pension provisions become unaffordable in the long term and have an adverse impact on the financial security of the College.

Risk Owner – Alison Stewart **Action Owner –** Alison Stewart

8. Other Implications –

Please indicate whether there are implications for the areas below.

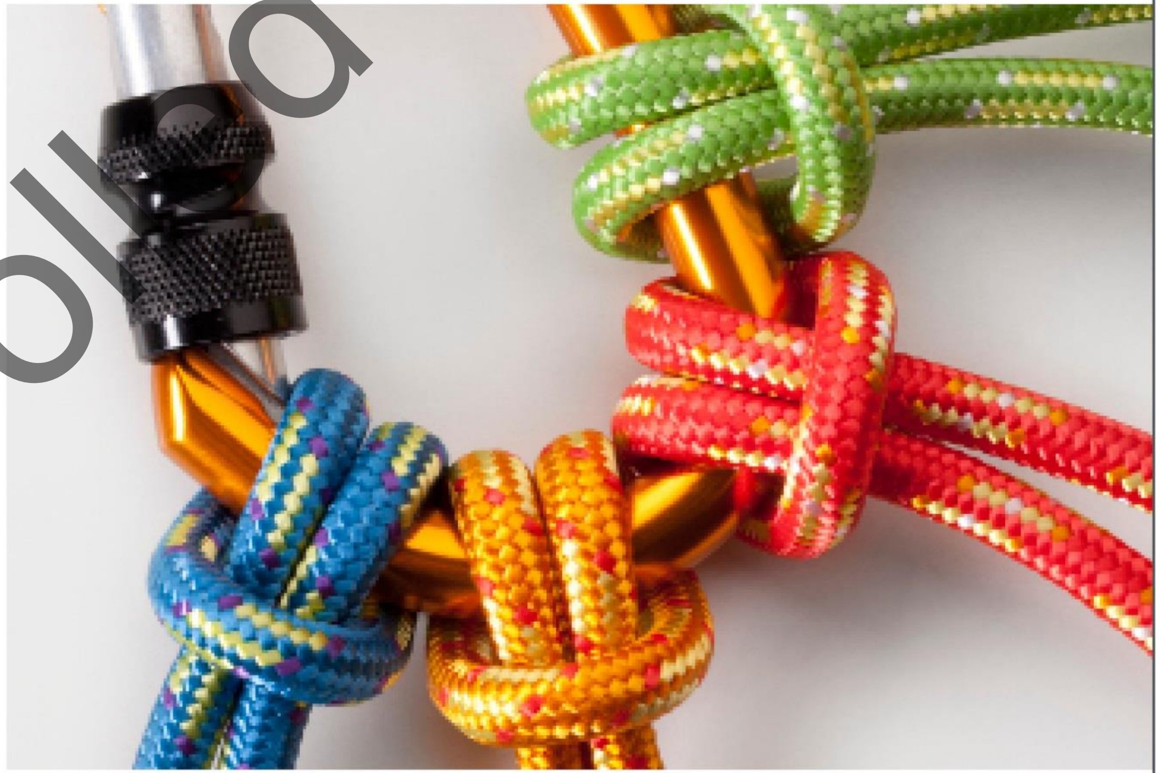
Communications – Yes ☐ **No** ☒ **Health and Safety – Yes** ☐ **No** ☒

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

HYMANS ROBERTSON

Falkirk Council Pension Fund

Employer Results Report:
Valuation as at 31 March 2017



Catherine McFadyen FFA

Robert McInroy FFA

For and on behalf of Hymans Robertson LLP

19 December 2017

Contents

1 Introduction

We have been commissioned by Falkirk Council ("the Administering Authority") to carry out a full actuarial valuation of the Falkirk Council Pension Fund ("the Fund") as at 31 March 2017 as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 ("the Regulations").

This report is intended to accompany the Employer Results Schedule which sets out the formal valuation results for the employer named in the schedule ("the Employer").

This report is addressed to the Administering Authority. The purpose of this report and the Employer Results Schedule together is to:

- Present the Employer's solvency level as at 31 March 2017 based on the funding assumptions (as set out in the Employer Results Schedule), and
- Propose appropriate levels of Employer contribution for the period 1 April 2018 to 31 March 2021.

This report and Employer Results Schedule may be shared with the Employer. The Employer should refer to the section 'Note to the Employer' overleaf when reading this report.

This report and Employer Results Schedule is addressed to Falkirk Council in its role as Administering Authority to the Falkirk Council Pension Fund. It may be shared with the Employer but should not be shared with any other third parties without our prior written consent. Where consent is given, the report should be supplied in full including any related reliances and limitations.

Please note that Hymans Robertson LLP accept no liability to any third parties (including the Employer). The reliances and limitations in the body and appendices of this report apply equally to all users of this report and Employer Results Schedule.

HYMANS ROBERTSON LLP

The following Technical Actuarial Standards[1] are applicable in relation to this report and Employer Results Schedule and have been complied with:

- TAS 100 – Principles for technical actuarial work;
- TAS 300 – Pensions.

However, it should be noted that this report does not comply with the sections of TAS 300 relating to “Assumptions” and “Risk Assessment and future evolution”: this additional information relates to broader strategic decisions to be taken by the Administering Authority, as opposed to the valuation results presented to a single Employer.

A glossary is contained as Appendix A: please refer to this if you are unfamiliar with any of the terms used in this report or the Employer Results Schedule.

Note to the Employer

If you are reading this report and Employer Results Schedule as the Employer, the purpose is to:

- Summarise the membership and cashflow data used in our calculations, to allow you an opportunity to verify this information is correct;
- Give you advance notice of the proposed contributions payable from 1 April 2018 for planning purposes; and
- Allow you an opportunity to check that your treatment is in line with the draft Funding Strategy Statement (“FSS”) and is appropriate to your circumstances.

The contributions have been calculated based on the principles set out in the draft FSS, which you will be consulted on separately.

If you are a member of a funding Pool within the Fund, the Employer Results Schedule will show results and proposed contributions applicable to the Pool as opposed to you as a single Employer.

The proposed contribution rates in the Employer Results Schedule have been prepared for the benefit of the Administering Authority, and are being shared with you, the Employer, for the purpose of identifying if there are any issues you wish to share with the Administering Authority, as per the above. If you have any comments regarding the proposed contributions, please highlight this to the Administering Authority suitably in advance of 1 April 2018 to allow sufficient time for discussion.

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

2 Solvency Level

What is the solvency level?

The 'Employer Solvency Level' (or 'Pool Solvency Level') section of the Results Schedule sets out the Employer's (or Pool's) funding position as at the valuation date of 31 March 2017. The funding position as at the previous valuation date of 31 March 2014 has also been included for comparative purposes.

- Past service liabilities: this is the value that has been placed on the benefits **built up to the valuation date** for the Employer's (Pool's) employees and ex-employees.
- Asset share: this is the market value of the share of the Fund's assets that have been allocated to the Employer (Pool). We have used a technique known as analysis of surplus to allocate assets to employers at the valuation. This technique utilises the available valuation data to track changes in the employer's surplus or deficit.
- Surplus/deficit: this is the difference between the asset share and the past service liabilities. If the Employer (Pool) has more assets than liabilities it has a funding surplus. If the Employer (Pool) has fewer assets than past service liabilities then it has a funding deficit.
- Funding level: this is the ratio of assets to past service liabilities. The contribution plan for the Employer (Pool) will aim to result in a 100% funding level over an agreed period (the "time horizon"). The lower the funding level, the greater the deficit and the poorer the Employer/Pool's position, and vice versa.

What will affect the solvency level?

Data

A summary of the membership data as supplied by the Administering Authority is summarised in the Data section of the Employer Results Schedule. It is the responsibility of the Employer to ensure the Fund holds correct data in respect of its current and ex-employees. Incorrect data may impact on the formal valuation results and subsequently the contributions the Employer pays to the Fund.

Actuarial assumptions

Different assumptions about the future will give rise to different valuation results. The assumptions were agreed with the Administering Authority at the Pension Committee meeting of 7th December 2017 and are set out in the Fund's Funding Strategy Statement ("FSS").

The main assumptions are set out in the Assumptions section of the Employer Results Schedule.

Further detail on the demographic assumptions is set out in Appendix B.

It should be noted that the actuarial assumptions and other funding parameters are set on the basis of agreement between the Administering Authority and the Fund Actuary, applicable to all employers. There is no requirement for employer agreement to the assumptions, and these are reproduced in the Employer Results Schedule for information purposes only.

What can Employers do in the future to improve their solvency level?

There are some elements which employers can control. These include:

- The contributions they pay to the Fund: any contributions employers make to the Fund (over and above the cost of the benefits that are being earned by current employees) will decrease any deficit the Employer (Pool) has. Employers will also receive investment returns on any contributions they make.
- Salary increases: the pensionable salary increases awarded to the Employer's employees affect the pension received by them in retirement. If Employers indicate that they intend to award higher salary increases than have been allowed for in the 2017 valuation assumptions, the Administering Authority and the Employer may wish to investigate the impact of this.

- Ill-health early retirements: The FSS sets out the Fund's treatment of ill-health early retirements.

Employers may find it helpful to speak with the Administering Authority regularly if they are concerned about their solvency level or future pension costs. It may be possible to provide employers with an indication of movements in their solvency level between formal valuation dates to allow them to monitor how their pension obligations are changing.

3 The contributions payable to the Fund

How is the '2017 valuation calculated contribution rate' determined?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*primary rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*secondary rate*".

The primary and secondary rates are determined with the aim of targeting a 100% funding level at the end of an agreed period (the "time horizon") with an appropriate likelihood of success.

The primary rate will depend on the profile of the Employer's (Pool's) membership. For example, the rate is higher for older members as there is less time to earn investment returns before the member's pension comes into payment.

The methodology for calculating the primary rate will also depend on whether the Employer (Pool) is open or closed to new entrants. A closed employer will have a higher rate as we must allow for the consequent gradual ageing of the workforce.

There is no guarantee that the amount employers pay for the primary rate will be sufficient to meet the cost of the benefits that accrue. Similarly, there is no guarantee that the secondary contributions will return employers to being fully funded at the end of the time horizon. The likelihood of meeting the target is displayed in Contribution Rates section of the Employer Results Schedule.

The proposed contributions for the Employer (Pool) are set out in the 'Proposed Contribution rates for the next three years' table in the Contribution Rates section of the Employer Results Schedule. These may be different from the 2017 valuation calculated contributions described as above. The reasons for any differences are discussed below.

What contributions are being proposed?

As discussed above, there is no guarantee that the 2017 valuation calculated contribution rate (either the primary or secondary components) will be sufficient. This is because the cost of benefits to be paid to members now and in the future is uncertain and will not be known until the last payment is made to the last members or dependant. We have made assumptions about the future in order to assess an appropriate contribution rate but these assumptions are unlikely to be borne out in practice each and every year in the future.

The approach used to propose contributions for the Employer (Pool) will depend on what type of organisation the Employer (Pool) is and the nature of its participation in the Fund. Details of how employers are categorised and their resulting proposed contributions are set is explained in the Fund's Funding Strategy Statement (FSS). One of the methods set out below will apply to each Employer (Pool).

1. Stabilisation: this is a mechanism that allows contribution rate changes to be limited and may apply to some employers in the Fund. The FSS will include details on the employers that the Administering Authority have permitted to adopt a "stabilised" contribution strategy
2. Risk based contributions: for employers who are not permitted to stabilise, the rate payable will depend on:
    - the employer's funding target (usually the Fund's ongoing or cessation basis);
    - how long the employer has to reach the funding target ("time horizon"); and
    - an appropriate likelihood of meeting the target (or 'likelihood of success') e.g. 75%.

Further details are provided in the FSS and Appendix C.

Additionally, the Fund may permit changes in contributions to be phased in over a number of years.

The proposed contributions (as eventually set out in the Fund's Rates and Adjustment Certificate) are a minimum. Any additional contributions employers pay to the Fund will have a positive impact on their solvency level. The Rates and Adjustments Certificate must be published by 31 March 2018 and applies until 31 March 2021.

How long do employers have to pay off their deficit?

Contribution rates are determined which aim to restore each employer to a 100% funding level at the end of an appropriate time horizon. This is set out in the Fund's FSS and varies depending on an employer's circumstances.

The "2017 valuation calculated contribution rate" results shown in the Contribution Rates section of the Employer Results Schedule will show the time horizon which applies to the Employer (Pool).

Note on pools

All employers in pools will be asked to pay the same contribution rate. These contributions may be more or less than each of the employers would have been asked to pay individually if they did not participate in the pool.

Employers planning to leave the Fund

If an employer leaves the Fund, a "cessation valuation" will be carried out. This valuation determines whether the employer has a surplus or deficit, and any deficit will have to be repaid to the Fund. Where we have forward notice of a planned exit, we are able to target the repayment of the cessation deficit over time and minimise the risk of the Fund requiring a single large payment. The FSS includes details on how a cessation valuation would be carried out.

Appendix A – Glossary

Actuarial assumptions / basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **financial assumptions** such as **discount rate**, salary growth, benefit increases and **demographic assumptions** such as longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Demographic assumptions	These assumptions determine when a benefit is paid. The main demographic assumption is the longevity assumption, which determines how long benefits are paid for. Other examples of demographic assumptions are the number of employees that leave the Fund and the number of employees that retire with ill-health benefits
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **primary rate** and the **secondary rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **primary rate** and **secondary rate** at each **valuation**.
Financial assumptions	These assumptions determine the value of future benefit payments. The main financial assumptions are the discount rate (assumed investment return), the salary increase assumption and the benefit increase assumption.
Solvency level/funding level	The ratio of assets value to **liabilities** value. The ideal position is 100%. If it is less than 100% then the Employer has a deficit; if it is more than 100% then the Employer has a surplus.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Local Government Pension Scheme (Scotland) (LGPS)	The Local Government Pension Scheme (Scotland) is a public sector pension arrangement put in place via Government Regulations for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 11 Funds which map Scotland. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Members The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Pooling Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another.

Primary rate The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using **actuarial assumptions**.

Profile The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs. their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Secondary rate The part of the Employer's annual contribution which relates to past service position as at 31 March 2017.

Stabilisation Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: risk-based modelling of future market movements; longer deficit recovery periods; higher discount rates; phasing of changes in rates or some combination of these.

Valuation An actuarial investigation to calculate the **liabilities** for a Fund and its individual employers, and to assess **primary** and **secondary contribution rates** for the Fund's employers. This is normally carried out in full every three years (last done as at 31 March 2017), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value is based on long term bond market yields at that date also.

Appendix B – Demographic assumptions

Males

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.27	96.58	223.33	0.00	0.00	0.00	0.00
25	117	0.27	63.79	147.52	0.15	0.02	0.13	0.02
30	131	0.32	45.25	104.64	0.28	0.04	0.23	0.03
35	144	0.38	35.35	81.74	0.55	0.18	0.46	0.15
40	150	0.64	28.44	65.77	0.83	0.30	0.69	0.24
45	157	1.07	23.28	53.82	1.32	0.59	1.09	0.49
50	162	1.72	18.03	41.69	2.48	1.38	2.59	1.45
55	162	2.68	17.32	40.05	7.77	5.17	4.67	3.11
60	162	4.83	15.43	35.67	13.21	9.05	3.87	2.65
65	162	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Females

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.14	76.49	129.80	0.00	0.00	0.00	0.00
25	117	0.14	51.45	87.32	0.19	0.16	0.15	0.13
30	131	0.21	43.12	73.18	0.25	0.21	0.21	0.18
35	144	0.34	37.19	63.11	0.48	0.40	0.40	0.33
40	150	0.55	30.93	52.49	0.72	0.60	0.60	0.50
45	157	0.89	25.46	43.21	0.96	0.80	0.79	0.66
50	162	1.30	19.40	32.93	1.76	1.44	1.84	1.51
55	162	1.71	18.15	30.80	6.43	5.22	3.87	3.14
60	162	2.19	14.59	24.76	13.55	10.94	3.97	3.20
65	162	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Longevity

As the fund is a member of Club Vita, the baseline longevity assumptions are a bespoke set of Vita Curves that are tailored to fit the membership profile of the Fund.

We have also allowed for future improvements in mortality based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a..

The resulting average life expectancies across the whole Fund are as follows:

	Male	Female
Current pensioners	21.9 years	24.3 years
Future pensioners	24.3 years	26.7 years

Future pensioners are assumed to be aged 45 as at 31 March 2017

These averages do not necessarily apply to the Employer's/Pool's membership; if you wish further details for the Employer/Pool specifically then please let us know.

Commutation assumptions and take–up of the 50:50 scheme

These assumptions are set out in the Assumptions section of the Employer Results Schedule.

Retirement age pattern & Dependants pensions

We have adopted the retirement age pattern assumption as specified by the LGPS Scheme Advisory Board in England & Wales for preparing Key Performance Indicators. We have allowed for an age-based proportion of members giving rise to dependants' pensions on their death. Further details about both these assumptions are available on request.

Appendix C – Technical appendix for contribution rate modelling

In order to assess the likelihood of the Employer/Pool's section of the Fund achieving full funding we have carried out stochastic asset liability modelling (ALM) that takes into account the main characteristics and features of the Employer/Pool's share of the Fund's assets and liabilities. For stabilised employers a full ALM, known as comPASS, has been used. For other employers a simplified ALM, known as TARGET, has been used.

The Employer Results Schedule sets out the total 2017 valuation calculated contribution rate that is sufficient to pay for the benefit that is accrued over the time horizon and return the employer's section of the Fund to a fully funded position for a given probability of success. The probability has been agreed with the Administering Authority and is dependent on each employer's own circumstances.

As with all modelling, the results are dependent on the model itself, the calibration of the model and the various approximations and estimations used. These processes involve an element of subjectivity. No inferences should be drawn from the modelling results other than those confirmed by us in writing.

The following sections provide more detail on the background to the modelling.

Cash flows

In projecting forward the evolution of each employer's section of the Fund, we have used anticipated future cash flows. These cash flows have been generated using the membership data provided for the formal valuation as at 31 March 2017, the demographic and financial assumptions used for the valuation and make an allowance for future new joiners to the Fund.

For comPASS we have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement) unless otherwise stated. There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not Fund specific, which is another simplification compared to the modelling of existing members. TARGET uses a similar, but simplified, approach to generating new entrants. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

We do not allow for any variation in actual experience away from the demographic assumptions underlying the cash flows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cash flows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of each Fund year. Investment strategies are assumed to be rebalanced annually.

Asset liability model (comPASS)

These cash flows, and the employer's assets, are projected forward using stochastic projections of asset returns and economic factors such as inflation and bond yields. These projections are provided by the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, which is discussed in more detail below.

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis would be required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset liability model (TARGET)

TARGET uses a similar, but simplified, modelling approach to that used for comPASS.

Contribution rates are inputs to the model and are assumed not to vary throughout the period of projection, with no valuation every three years or setting of 'stabilised' contribution rates.

In allowing for the simulated economic scenarios, we have used more approximate methods for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified.

When projecting forward the assets, we have modelled a proxy for the Fund's investment strategy by simplifying their current benchmark into growth (UK equity) and non-growth (index-linked gilts) allocations, and then adjusting the volatility of the resultant portfolio results to approximately reflect the diversification benefit of the Fund's investment strategy.

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we have not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.

We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2017. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, expect for the yields which refer to the (simulated) yields in force at that time horizon. Only a subset of the asset classes are shown below. Similar information for additional classes is available on request.

		Annualised total returns									
		Cash	Index Linked Gilts (medium dated)	Fixed Interest Gilts (medium dated)	Corporate Bonds (medium dated)	UK Equity	Overseas Equity	Property	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.7%	-2.5%	-3.1%	-2.9%	-4.5%	-6.4%	-4.3%	1.5%	-2.3%	1.1%
	50th %'ile	0.4%	0.3%	0.1%	0.5%	3.6%	3.4%	1.4%	2.9%	-1.4%	2.4%
	84th %'ile	1.7%	3.0%	3.2%	3.9%	12.4%	13.7%	8.0%	4.4%	-0.5%	4.0%
10 years	16th %'ile	-0.2%	-1.6%	-1.1%	-0.7%	-1.4%	-2.7%	-2.2%	1.7%	-1.9%	1.4%
	50th %'ile	1.3%	0.1%	0.4%	1.0%	4.6%	4.3%	2.4%	3.0%	-0.7%	3.0%
	84th %'ile	3.1%	2.0%	2.0%	2.7%	10.9%	11.8%	7.3%	4.6%	0.5%	5.1%
20 years	16th %'ile	0.7%	-0.9%	0.4%	0.9%	1.3%	0.1%	0.0%	1.9%	-0.8%	2.1%
	50th %'ile	2.5%	0.5%	1.3%	2.1%	5.9%	5.5%	3.7%	3.1%	0.8%	4.0%
	84th %'ile	4.6%	2.1%	2.3%	3.3%	10.6%	11.2%	7.6%	4.6%	2.3%	6.3%
	Volatility (Disp) (1 yr)	0.5%	7%	10%	10%	16%	18%	14%	1.4%		

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -1.7% (1.7%) to 0.8% (4.0%)

31 March 2017 Formal Valuation - Draft Results

ATTENTION
The results in this Schedule should be read in conjunction with the draft Funding Strategy Statement, the Employer Results Report, the Formal Valuation Report (to be issued in March 2017),and any related correspondence. The method, assumptions, reliances and limitations are described in those documents. The restrictions set out in those reports on the disclosure to any third party apply equally to this Results Schedule. It should be noted that this Schedule is intended for the use of the Administering Authority only but may be shared with the Employer named within this Schedule for the purposes of agreeing a contribution plan.

Fund	Falkirk Council Pension Fund
Administering Authority	Falkirk Council Pension Fund
Employer	Not applicable
Pool (if applicable)	Forth Valley College
Employer code/Pool Name	Forth Valley College
Open/Closed	Open
Employer Type	Pool

2017 Valuation Results - Balance Sheet

Funding Position Relative to Employer Funding Target	Ongoing Funding Basis 31 March 2014 (£000)	Ongoing Funding Basis 31 March 2017 (£000)
Past Service Liabilities		
- Active Members (Final salary)	13,077	15,453
- Active Members (CARE)	-	3,936
- Deferred Pensioners	5,322	7,389
- Pensioners	8,891	11,694
Total	**27,289**	**38,473**
Asset Share	**24,091**	**35,912**
Surplus / (Deficit)	**(3,198)**	**(2,561)**
Funding Level	**88%**	**93%**

2017 Valuation Results
Contributions in payment

	% of payroll		£(000) p.a.
Rate paid in 2017/2018	17.9%	plus	191

Valuation contribution rate results

Contribution Rates	Primary Rate Cost of New Benefits Accruing % of payroll	plus	Secondary Rate Deficit (Surplus) Repayment % of payroll	Total Contribution Rate % of payroll
Recommended Contribution Rates				
2018/19	19.3%	plus	2.1%	**21.4%**
2019/20	19.3%	plus	2.6%	**21.9%**
2020/21	19.3%	plus	3.1%	**22.4%**

The cost of providing LGPS pension benefits is dependent on many uncertain factors including the investment performance of the Fund's assets. To reflect the uncertainty, employer contribution rates have been set by modelling the contributions required to fund the benefits under 5,000 different economic scenarios. **The likelihood that the Total Contribution Rate above will pay for both benefits accruing and return the employer to a fully funded position over a period of 20 years is targeted to be at least 83%.**

Further details of how contribution rates have been calculated are included in the Employer Results Report and the Funding Strategy Statement.

The Primary Rate includes an allowance of 0.2% for administration expenses.

Data

Membership Statistics	Numbers		Actual Pay / Pension (£000)		CARE Pot (£000)[1]
	31 March 2014	31 March 2017	31 March 2014	31 March 2017	31 March 2017
Actives	256	320	5,432	7,116	252
Deferred Pensioners	127	197	318	350	-
Pensioners	109	127	522	624	-

[1] CARE Pot for deferred and pensioner members is included in the pension figures

Membership Statistics	Average Age[2]		Duration
	31 March 2014	31 March 2017	31 March 2017
Actives	50.0	51.0	25.1
Deferred Pensioners	49.5	49.3	25.4
Pensioners	65.3	66.7	12.3

[2] Weighted by liability

Assumptions

The assumptions are consistent across all employers and will be set out in the Formal Valuation Report. Where an employer is near cessation (e.g. the last active may leave before the next valuation) the cessation funding basis has been used for funding purposes. The headline financial assumptions are set out below:

Financial Assumptions	Ongoing Funding Basis 31 March 2014	Ongoing Funding Basis 31 March 2017	Cessation Funding Basis 31 March 2017
Discount Rate			
- Pre Retirement	5.1%	3.5%	1.7%
- Post Retirement	5.1%	3.5%	1.7%
Salary Increases	4.0%	2.9%	2.9%
Pension Increases / CARE revaluation	2.7%	2.4%	2.4%

31 March 2017 Formal Valuation - Indicative Cessation Position

2017 Valuation Result Estimated Cessation Results

The table below shows the Pool's position as at 31 March 2017 using the cessation funding basis financial assumptions and an increased allowance for future improvements in longevity (as well as the 2017 valuation results on the Fund's Ongoing Funding Basis). This information is provided to give an indication of the Pool's position and of the potential magnitude of the required cessation payment if the Pool ceased participation in the Fund.

Funding Position	Ongoing Funding Basis 31 March 2017 (£000)	Cessation Funding Basis 31 March 2017 (£000)
Liabilities		
- Actives Members (Final salary)	15,453	25,046
- Actives (CARE)	3,936	6,955
- Deferred Pensioners	7,389	12,187
- Pensioners	11,694	14,909
Total	**38,473**	**59,097**
Asset Share	**35,912**	**35,912**
Surplus / (Deficit)	**(2,561)**	**(23,186)**
Funding Level	**93%**	**61%**

i.e, if the Pool had ceased participation in the Fund as at 31 March 2017, a cessation payment of £23,186k would have been required.

The cessation payment is almost always significant and we strongly recommend that you contact the Fund if you believe your participation in the Fund may end in future for any reason. Where we have forward notice of a planned exit, we are able to target the repayment of the cessation deficit over time and minimise the risk of the Fund requiring a single large payment.

Forth Valley College

Programme of Finance Committee Business

	Jun-18	**Sep-18**	Nov-18	**Mar-19**
1 Apologies for absence	✔	✔	✔	✔
2 Declarations of interests	✔	✔	✔	✔
FOR APPROVAL				
3 Minutes of previous meeting	✔	✔	✔	✔
4 Maters Arising	✔	✔	✔	✔
Annual Accounts			✔	
Resource Return 2017/18 (Q4/2)				✔
Donation to Forth Valley College Foundation				✔
Tuition Fees & Fee Waiver Policy				✔
Budget 2018/19	✔			
Financial Forecast Return	✔			
Student Association Accounts & Budget		✔		
Accounting Policies		✔		
Resource Return 2017/18 (Q4/4)		✔		
FOR DISCUSSION				
Business Development Update	✔	✔	✔	✔
Forecast Outturn 2017/18 @ April 2018	✔			
Forecast Outturn 2017/18		✔		
Forecast Outturn 2017/18 @ January 2019				✔
Indicative Funding Allocation 2019/20				✔
Procurement Update	✔			
Review of Risk	✔	✔	✔	✔
Any other competent business	✔	✔	✔	✔
FOR INFORMATION				
Programme of Committee Business	✔	✔	✔	✔
Budget Monitoring - 2017/18 Qtr 3(Apr 2018)	✔			
Budget Monitoring - 2016/17 Qtr 1 (Oct 2018)			✔	
Budget Monitoring - 2017/18 Qtr 2 (Jan 2019)				✔