Agenda

16 June 2020
FINANCE COMMITTEE

Zoom, 4.30pm

AGENDA

1. Declarations of interest

FOR APPROVAL

2. Minutes of Meeting of 19 November 2019

3. Matters Arising

   a) F/19/008 FVC 5 Year Financial Plan
   b) F/19/016 Student Funding Outturn 2018/19 & Forecast 2019/20

4. Tuition Fees & Fee Waiver Policy — 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/media/6548/tuition-fee-waiver-policy-2020-21.docx

5. Accounting Policies for year ended 31 July 2020 — Senga McKerr

FOR DISCUSSION

6. Budget 2020-21 — Senga McKerr
(Elements of paper 6 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

7. Update on Q3 Forecast 2019-20 Incorporating May Management Accounts — Senga McKerr
(Elements of paper 7 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.)

8. Review of Risk

9. Any other competent business

S1.19, Stirling Campus (commencing at 4.30pm)

Present: Liam McCabe (Chair)
Andrew Carver
Pamela Duncan
Ken Richardson

Apologies: Trudi Craggs

In Attendance: Alison Stewart, Vice Principal Finance and Corporate Affairs (VPFACA)
Moira France, Finance Manager (FM)
Stephen Jarvie, Corporate Governance and Planning Officer (CGPO)
Pauline Barnaby, Development and Fundraising Manager (DFM) exited after F/19/014
Jacqueline Leishman, Supply Chain Manager (SCM) exited after item F/19/015

F/19/011 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/19/012 Minutes of meetings of 17 September 2019

Members approved the minute of the meeting of 17 September 2019

F/19/013 Matters Arising

a) F/19/008 FVC 5 Year Financial Plan

The Chair noted that there had been robust discussion at the meeting of the Board of Management on 24 October 2019 regarding the future financial position of the College. The Committee noted that while concerns about the future financial situation were raised, the Board reaffirmed its support for the strategy developed by management and discussed at the Board away day to address this matter.

The VPFACA informed members that the Chair and Principal had met with the Chief Executive of the Scottish Funding Council (SFC) the previous day to highlight these concerns. She highlighted that the lifecycle maintenance funding for the College estate had also been raised and SFC had indicated that they would like to see further information to see how the funding for the College estate maintenance could be given parity to other College builds which were supported by Non Profit Distribution programmes.

Members queried whether the College was commencing with a review of lifecycle maintenance and the VPFACA confirmed that AECOM had already been appointed to do so and that they were reviewing this in conjunction with the College's current FM provider.

F/19/014 **Development & Fundraising Strategy 2019 – 2022**

The DFM presented the new Development and Fundraising Strategy for the three year period 2019-2022.

She provided an overview of the progress to date on funding, highlighting the high level of success from applications.

She outlined the process used to refresh the strategy, highlighting the involvement of staff in its development and outlining the three key objectives within the strategy.

Members welcomed the high percentage of successful applications achieved to date.

Members queried whether the three year strategy would be broken down into annual targets. The DFM confirmed that there was an annual action plan developed to support the achievement of the overall strategy.

Members queried whether the College had an income target for fundraising activity. The VPFACA informed members that there was not a target as this activity is primarily used to provide added value to students and the College offering.

Members requested that an annual update be brought to the Committee and also requested that the report be provided to the full Board of Management. .

a) Members approved the Development and Fundraising Strategy 2019-2022

F/19/015 **Annual Procurement Report**

The Chair welcomed the Supply Chain Manager to her first meeting of the Finance Committee and confirmed that this paper should have been listed on the agenda as an approval item.

The SCM presented the annual report on procurement, noting that this was the second year this report had been produced to meet the College's obligations under the relevant legislation. In that regard the Committee noted that the form and content of the report was to all intents prescribed.

She highlighted the significant level of procurement, as measured by expenditure levels, conducted in 2018-19, confirming to members that these levels were primarily as a result of procurement for the new Falkirk campus.

Ken Richardson, as Chair of the Falkirk Campus Project Board, commented on the process for approval of tenders for the new campus project which added a further level of scrutiny. He highlighted that the process had been very transparent and the tenders received had secured a high level of quality whilst also maintaining value for money.

The SCM informed members that the recently completed Procurement & Commercial Improvement Programme (PCIP) review has shown continued improvement within College procurement, with the College assessment moving from silver to gold owing to the rating increasing from 63% to 79%.

Members commended the significant increase in the rating.

The VPFACA commented that the improvement was a result of a number of factors, including more robust procedures and increased staff awareness and training by the previous SCM.

Members noted their appreciation of the work done by the previous SCM and expressed their support to the current SCM to continue the positive direction of procurement.

a) Members approved the annual report for publication

F/19/016 Student Funding Outturn 2018/19 & Forecast 2019/20

The VPFACA presented members with an overview of the previous year's student funding levels and the expectations for funding claims for the current year.

She highlighted that changes last year in the criteria for student funding, moving from a pure attendance model to one that considered progression as the awarding criteria.

She noted that, while this had been challenging, the College now had a data baseline to anticipate funding utilisation which underpinned the forecast for 2019/20.

She confirmed that the College anticipated requesting in year redistribution funding from SFC to support the anticipated shortfall in funding levels.

Members queried whether the College was able to vire monies between the various funding streams. The VPFACA confirmed that the College was able to do this to an extent.

a) Members noted the content of the report

F/19/017 Review of Risk

None

F/19/018 Any Other Competent Business

None

F/19/019 Annual Report and Financial Statements 2018/19

The FM presented the annual report and financial statements for 2018/19.

She highlighted that, as in previous years, technical accounting treatments impacted on the presentation of the accounts. She referred members to page 12 of the accounts for a more insightful representation of the College's underlying financial position.

She informed members that the College continued to be a going concern and the College external auditors agreed formally with that assertion.

Members agreed to consider the draft external auditors report before confirming approval.

a) Following consideration of the draft external auditors report, members endorsed the Annual Report and Financial Statements 2018/19 for presentation to the Board of Management for approval

F/19/020 Draft External Audit Annual Report to the Board of Management

Steven Reid, Partner, Ernst & Young, presented the draft external auditor report to the Committees.

He provided an overview of the content in the report and confirmed that the report was a positive one with no matters requiring to be brought to the attention of the Committees.

He confirmed that he intended to issue an unqualified report on the accounts.

He thanked the finance team and College management for the high quality of the information provided to his team.

The VPFACA commented that the College had a positive underlying operating surplus position and that this had been agreed by SFC.

Members commented that the accounts were positive and recorded their thanks for the work done by the finance team.

Members queried the change in day's cash from last year to this. The VPFACA confirmed that this figure had been distorted owing to the drawdown of capital funding grant which was unspent at 31 July 2018.

Members queried the level of trade debtors and asked for an explanation for the increase. The FM noted that she did not have this information to hand and the VPFACA informed members that further information would be brought on this topic when the accounts were considered at the upcoming Board of Management meeting.

Members also commented on recent discussions at Board of Management level with senior management on measures being developed to support the long term sustainability of the College.

a) Members endorsed the Draft External Audit Annual Report for submission to the Board of Management

4. Tuition Fees and Fee Waiver Policy Session 2020-21
For Approval

16 June 2020
FINANCE COMMITTEE

1. Purpose

To seek approval from the Finance Committee of the level of tuition fees and fee waiver policy for Session 2020-21.

2. Recommendation

That members discuss and approve the proposed tuitions fees and fee waiver policy for Session 2020-21.

3. Background

The Board of Management (through its Finance Committee) 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 2019-20. Approval of the fee waiver policy will be subject to any changes made to the national policy for Session 2020-21.

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 2020-21, and as such the full time fees are shown below at the same levels as for 2019-20. It should be noted that these fees have not changed over that last nine sessions, and are unlikely to change for Session 2020-21.

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

SQA fees are a large determinant when setting part time fees. SQA have only just stated that their prices will remain unchanged for the current Session, and it's very unlikely that we will know their position for Session 2020-21 in time to influence our fee setting.

The most recent Consumer Price Inflation (CPI) rate for April is 0.8%, which is a fall from 1.8% for February, when this paper first came to LMT. An inflationary increase would now add less than £1 to the cost per Credit for an FE course, HE course or Degree course. The College has chosen not to increase our part time fees to remain competitive with neighbouring colleges in both of the last two sessions, however over the previous three sessions 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 £120 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 0.8% increase to our part time and Credit based evening provision based on current activity levels could see an additional £4K received through tuition fees. College costs are subject to inflationary increases, so there is a strong argument to pass on a small amount of this cost through our part time fee levels, however we are already more expensive than our neighbouring Colleges. With the impact of Covid-19 there is also potential for the UK economy to move into recession. With all these factors the recommendation is to keep our fees for 2020-21 at the same level as the current session.

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 2020-21. 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 one international student on mainstream courses in Session 2019-20. 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.

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, 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 £4K in tuition fees received in Session 2020-21 compared to Session 2019-20 if an inflationary 0.8% increase was applied to our part time fees, which would not be realised if we retain our fees at the current value.

6. Equalities

Assessment in Place? – Yes ☐ No ☒

If No, please explain why – From a review of our part-time fee paying students by protected characteristic there are no characteristic groupings of students who would be more impacted by this change than students who don't have this characteristic.

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

7. Risk

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

	Likelihood	Impact
Very High		
High		
Medium		
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 are not increased.

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 to appropriate staff.

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

5. Accounting Policies for year ended 31 July 2020
For Approval

16 June 2020
FINANCE COMMITTEE

1. Purpose

To present to the members the proposed accounting policies to be applied to the Report and Financial Statements for the year ended 31 July 2020.

2. Recommendation

That members approve the accounting policies for application to the Report and Financial Statements for the year ended 31 July 2020.

3. Background

The Finance team has reviewed the accounting policies to ensure that they remain the most appropriate to the College's particular circumstances.

The College's accounting principles are based on the current Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) 2019, which is an updated SORP for this year.

4. Key Considerations

The proposed accounting policies are attached for consideration. No changes have been made to the policies since they were last presented to the Finance Committee on 18th June 2019.

5. Equalities

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

6. Risk

	Likelihood	Impact
Very High		
High		
Medium		
Low		
Very Low	x	x

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

Risk Owner – Alison Stewart

Action Owner – Alison Stewart

7. Other Implications

Communications – No

Health and Safety – No

Paper Author – Senga McKerr

SMT Owner – Alison Stewart

Appendix 1

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2019: 'Accounting for Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2015/16 Government Financial Reporting Model (FReM) issued by the Scottish Government and in accordance with applicable Accounting Standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of accounting

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

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

Going Concern

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

FRS 102

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

Recognition of income

Income

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

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

Grant Funding

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

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

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

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

Land and Buildings
Land and buildings are measured using the revaluation model and accordingly, assets are revalued to fair value. Where appropriate Depreciated Replacement cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The land at the Middlefield site have been valued on the basis of Open Market value.

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

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the College. If a building is brought into use mid-way through a year the depreciation charge in the first year will be pro-rated to reflect the number of months that the asset was in use.

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

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

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives. The expected useful life of buildings can vary from 20 to 50 years as determined by professional opinion and valuation.

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

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

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

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

Leased assets

Finance Leases

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

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

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

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

Operating Leases

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

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

Revaluation reserve

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

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

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

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

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

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

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

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

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

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

Foreign currency translation
Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated

into sterling at the year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure.

Employment Benefits

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

Retirement benefits

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

Local Government Pension Scheme (LGPS)

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

Scottish Teachers' Superannuation Scheme (STSS)

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

Pension Provision

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

Derivatives

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

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

Reserves

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

1. Purpose

To present members with the draft of the Revenue Budget for 2020-21.

2. Recommendation

That members consider the draft revenue budget for 2020-21 and take note of the projected deficit. SMT are meeting on 22 June to consider corrective actions, and the Leadership Management Team will be developing these over the summer period. A final balanced budget will be presented to the Finance Committee and Board of Management in September.

3. Background

Given the current lockdown situation it has been difficult to decide on the operating assumptions for this budget. We took the decision to prepare the first draft budget on the basis that we will return to teaching from August, albeit in a new format. The departments have considered the impact of social distancing on income and made best endeavours adjustments. The potential impact of social distancing on staffing costs is not included in this draft, as how we operate once we return to campus is still being worked through.

This first draft of the budget is showing an operational deficit of £670k for the academic year 2020-21. We should always be budgeting an operational cash surplus to be equivalent to the loan repayments (£184k) plus providing some level of cushion. Therefore, the gap we have to bridge is a minimum of £854k. Given the uncertainty that has arisen from recent events relating to Covid-19 it would be prudent to allow for a greater than usual contingency for additional costs or loss of income. As such, finance costs include a contingency of £150k.

As a consequence of the impact of social distancing on future operations, and the uncertainty surrounding the Covid-19 situation and return to campus, there are a number of areas of risk within this draft of the budget, and these are discussed in section 7 below, with the potential financial implications listed at Appendix 3.

Appendix 4 highlights some potential areas of savings and additional income, from known costs and projects under discussion. Appendix 5 gives some examples of possible courses of action that will be considered by SMT.

This first draft of the budget focusses on the operational position of the College and does not include the calculations for non-cash items or projects covered by funding from the ALF.

4. Key Considerations

The revenue budget for 2020-21, as detailed in Appendix 1, shows an operational deficit of £670k. The key assumptions and explanations are as detailed in Appendix 2, and LMT has confirmed its confidence in these assumptions, albeit recognising the risks that exist.

The measure for Colleges to monitor financial performance is the Underlying Operating position, which adjusts for non-cash and one-off items, and takes account of loan repayments. The reconciliation of the I&E operational position is as below:

Adjusted Operating Position		
	2020/21 Budget £'000	2019/20 Forecast £'000
Surplus/(deficit) before other gains and losses	**(670)**	**212**
Revenue funding allocated to loan repayments	(184)	(175)
Underlying Operating Position	**(854)**	**37**

Much of the expenditure at FVC is unavoidable arising directly from our core business and estates portfolio. All requests for additional discretionary spend have been denied, and certain areas of savings identified and removed from the budget. Some spend that was removed from the Q3 Covid forecast has been carried forward to the budget, but only if it has been noted as essential.

5. Capital & Maintenance Budget

For fiscal year 2020-21 FVC's budget is £749k for capital projects and lifecycle maintenance. FVC has to top slice £150k of this for interest payments, which does not apply to the majority of Colleges. The two capital projects being undertaken are to support remote learning – the purchase of laptops, and equipment to allow video capture and live streaming.

Capital & Maintenance Budget	
	2020/21 Fiscal year £'000
Capital projects	300
Revenue maintenace	299
Interest on loan repayments	150
Total allocation	**749**

6. Financial Implications

As it stands, the first draft of the 2020-21 budget is showing an operating deficit at a level which will be unacceptable to the Board, SFC and Scottish Government. Furthermore, there is a risk that the current Covid-19 situation will result in a loss of income and further costs not yet identified, as we return to our new normality.

7. Equalities
Assessment in Place? – Yes ☐ No ☒

Not applicable given the nature of this report.

8. Risk

	Likelihood	Impact
Very High	x	x
High		
Medium		
Low		
Very Low		

There are specific risks to be highlighted at this time. Appendix 3 lists the potential financial impact of each of these risks:

- Delivering on core Credit targets is going to be challenging and should FVC, and the sector, fail to deliver these core targets the ESF funding (£480k) would be at risk.
- The operation of Foundation Apprenticeships is a serious concern, as for most disciplines a period of work placement is required. We anticipate difficulties in obtaining agreement from employers to host placements during social distancing. Discussions are on-going with SQA and SDS to find a resolution. There is a further risk of local authorities removing FAs as an option for their pupils, as following the lockdown, FAs have been treated differently from Highers for 2019-20 assessment and resulting. This could result in low levels of recruitment making class sizes unviable and FVC being unable to continue providing FAs to those local authorities who do wish to continue.
- [redacted]
- [redacted]
- Delivery of the full FWDF allocation which has been budgeted, will depend on companies being willing to prioritise staff training as they adjust to new working practices. This year, despite signing up companies for the entire 2019-20 allocation, we are forecasting less

than half of this due to scheduling issues with companies and the lockdown, therefore it will be a challenge to deliver the full amount next year.

- There is a risk of significant cost implications of implementing social distancing into our teaching delivery, should additional hours be required to cover smaller class sizes. Approval for additional hours will need to be closely monitored by departments.
- Following the upcoming valuation of the LGPS pension scheme, there is a significant risk that due to the impact of the McCloud ruling relating to unlawful age discrimination in public sector pension schemes, the Falkirk LGPS scheme will be underfunded and employer contributions will have to increase.
- This budget assumes that the old Falkirk campus will be sold before the end of July 2020, therefore no costs relating to the building and security thereof have been included.
- [redacted]

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

9. Other Implications –
Please indicate whether there are implications for the areas below.

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

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

Forth Valley College

7. Update on Q3 Forecast 2019-20
Incorporating May Management Accounts
For Discussion

16 JUNE 2020

FINANCE COMMITTEE

1. Purpose

To present a high-level update on the Q3 Forecast Outturn for Academic Year 2019-20 taking into account the actual results for the year to May 2020.

2. Recommendation

For members to consider and discuss the financial position of the College for the year to 31 July 2020.

3. Background

A forecasting exercise was carried out for Q3 incorporating the anticipated impact of the Covid-19 pandemic and issued to the Board in April. Subsequent to the Board meeting the deficit position of £574k was adjusted for corrective actions taking the final Q3 operating surplus to £212k. The full year Q3 forecast is essentially a breakeven position of £212k surplus, allowing the loan repayments of £175k to be made from revenue funding, leaving an underlying operating position of £37k.

Rather than providing our usual management accounts for the period to May 2020, this report provides a summary update of the current position with the College's Income & Expenditure account and looking forward to the July year end. The Q3 forecast was prepared at a College level, rather than a phased departmental level, which means we must use the May actuals for 10 months and compare to the Q3 forecast for the annual position. The variances mentioned are therefore large as they represent the remaining income and expenditure for the final 2 months of the year, but contextual narrative is included.

4. Key Considerations

The key message from this report is that, as long as FVC receives the European portion of the ESF funding, we are optimistic that we will achieve a breakeven position for 2019-20.

Income and Expenditure as set out in Appendix 1

The 10 months to May is showing an operational surplus before New Falkirk and non-cash items of £1,186k.

Although overall income for the 10 months is currently £5,941k behind the full year forecast, looking at the individual areas we are cautiously optimistic that the Q3 income total will be achieved, as long as we receive the full ESF funding. Matters to note are:

- There is outstanding income still to be received for:
  - Modern Apprenticeships
  - Foundation Apprenticeships
  - Graduate Apprenticeships, and
  - Other income.

[redacted]

- Compared with the Q3 forecast, extra income totalling £45k has been received than was projected for the full year for:
    - Tuition fees
    - Evening provision, and
    - Commercial training

  We are looking at restarting Comp'Ex training, but if that is not possible there will be negligible further commercial income before the end of the year, nor was any projected in the Q3 forecast.
- SFC grant in aid income will be an increase of £51k on Q3 forecast as the additional Credits awarded in the in-year redistribution have now been confirmed.
- Income of £473k from the Government's job retention scheme was included in the Q3 forecast. The claim for the period to 31 May was c£10k greater than included within this total, however there has been some movement on the list of staff on furlough, and as such full receipt of the £473k may not be achievable, but we do not expect the variance to be significant.
- Flexible Workforce Development Fund – clients are being asked to transfer to online courses and as a consequence the income for FWDF should be achieved as a minimum per the Q3 forecast. This will depend on the online courses beginning before 31st July.
- The rules on the European Social Fund grant requires the College sector as a whole to have delivered all core SFC credit funding, achievement of which is uncertain and outwith FVC control. There is a possibility we will receive the full grant but £176k remains at risk and needs to be confirmed.
- The income from SDS claims for Modern Apprenticeships has reached the level of the full year Q3 by the first week of June. An estimate for the remainder of the academic year would put this at c£30k over the Q3 forecast.
- Income from Foundation Apprenticeships is proving difficult to claim. Despite much effort being put in by staff, obtaining the necessary paperwork is slow. If we receive 50% of the remaining milestone income, which may be optimistic, we will still be £43k short of the Q3 forecast.
- Other Income comprises many categories of income, and in total will reach the level of Q3 forecast.

Overall expenditure for the 10 months to May is currently £7,026k below the full year forecast. At this time we have no reason to believe that expenditure will overrun the forecasts. Areas to note:

- There are no known significant overruns in expenses which will impact the final outturn.
- Known savings in expenses include:
    - Staff related costs – it is likely there will be savings beyond those included in the Q3 for staff travel c£20k
    - Catering and hospitality allowance for restocking £14k as we will now not be in campus before August. These costs are now in the budget for 2020-21.

  - Other costs are likely to have some savings but these are undetermined at present.
- There are large invoices still to be received for:
  - SQA registration fees
  - Servest FM costs
  - Utilities

Cash reserves

The level of cash balances held by FVC is obviously of concern, as we require sufficient cash flow to meet our financial commitments including staff costs and external contractual requirements.

Based on achieving the Q3 forecast Income & Expenditure result, we are predicting that cash balances will fall to £2.7 million by the end of July 2020, which is a manageable level as long as deficits do not continue into the new academic year. However, it should be noted that £800k of this is the retention due to be paid to Balfour Beatty in November 2020.

Unresolved issues and areas of risk

There are unresolved issues and areas of risk relating to FVC, which could impact the final outturn, namely:

- Confirmation on ESF position
- Ability to gather evidence to allow claims on the Foundation Apprenticeship contract

5. Financial Implications

As indicated in the April Board paper it is an ongoing challenge to achieve the surplus position we require for 2019-20, however, current indications are encouraging that, as long as we receive the European ESF funding, we will be able to do so.

There are still uncertainties to be clarified before the final outturn can be known and therefore close financial monitoring will continue over the final 2 months of the year.

6. Risk

	Likelihood	Impact
Very High		
High	x	x
Medium		
Low		
Very Low		

The Covid -19 pandemic has had a significant impact on the projected financial outturn for 2019-20. There is still uncertainty around a number of assumptions, however the actions to resolve the projected deficit, with the exception of the ESF funding, fall within the control of the College to deliver.

Risk Owner – Alison Stewart **Action Owner –** Senga McKerr

7. Other Implications

Communications – No

Health and Safety – No

Paper Author – Senga McKerr

SMT Owner – Alison Stewart