Forth Valley College

Agenda

14 June 2022
FINANCE COMMITTEE

Zoom, 4.30pm

AGENDA

1. Declarations of Interest

FOR APPROVAL

2. Minutes of Meeting of 22 March 2022

3. Matters Arising - None

4. Tuition Fees & Fee Waiver Policy Session 2022-23 — 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/8423/tuition-fee-waiver-policy-2022-23.docx

5. Accounting Policies for year ended 31 July 2022 — Moira France

6. Procurement Strategy, Policy and Procedures — Ester Vasallo

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/procurement/

FOR DISCUSSION

7. Budget 2022-23 — Senga McKerr

Elements of paper 7 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy and Section 36 Confidentiality of the Freedom of Information (Scotland) Act 2002

8. Q3 Forecast Outturn 2021-22 — Moira France

Elements of paper 8 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy and Section 36 Confidentiality of the Freedom of Information (Scotland) Act 2002

9. Review of Risk

10. Any other competent business

Zoom (commencing at 4.30pm)

Present: Liam McCabe
Trudi Craggs
Lindsey Hastie
Amber Little
Ken Richardson

Apologies: Andrew Caldwell

In Attendance: Alison Stewart, Vice Principal Finance and Corporate Affairs (VPFACA)
Senga McKerr, Director of Finance (DOF)
Moira France, Finance Manager (FM)
Stephen Jarvie, Corporate Governance and Planning Officer (CGPO)

F/21/020 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.

He also noted a declaration in relation to the topics of the City Deal and the Scottish International Environmental Centre which were referred to in the papers.

F/21/021 Minute of Meeting of 16 November 2021

Members approved the minute of the meeting of 16 November 2021.

F/21/022 Matters Arising

Members were informed that the financial statements had been signed as at 24 February 2022.

F/21/023 Travel & Expenses Policy

The DOF presented an update to the policy, noting that it had last been reviewed in 2017.

She highlighted key changes such as the use of a single travel agency for the arrangement of travel outside the local area, the introduction of hybrid working, clarification on claiming timelines, the impact of Brexit on health insurance.

She also informed members that a review had been taken of allowances and, other than a small uplift in the daily allowance rate for business in London, had remained the same.

Members queried the number of College credit cards in use. The DOF confirmed the number was less than 10 and that the largest limit on any card was £7k on the card held by finance with an overall College limit of £35,000, with this card being the one used by the Finance team.

a) Members approved the Travel and Expenses Policy

F/21/024 **Q2 Forecast Outturn 2021-22**

The DOF presented the forecast outturn for members' consideration. She highlighted the major changes since the budget had been approved in September 2021.

She confirmed SFC had approved the carry forward of the £1.8m surplus from 2020-21 and outlined what areas it had been approved to utilise this surplus for.

She highlighted the costs associated with the voluntary severance scheme currently underway and highlighted that the biggest risk at this time was pay rises as this had not been agreed yet and was therefore difficult to budget for.

Members queried the level of interest in the voluntary severance scheme. The VPFACA outlined the scheme and the number of applications that had been received.

Members queried where things were in relation to ESF and any potential clawback. The DOF reported that this was still in progress, with issues around signatures not being received during the national lockdowns and ESF rules being inflexible in relation to the challenges. Once further detail is known, provision for this will be included.

a) Members discussed the forecast outcome and noted the potential increase in the level of provisional funding

F/21/025 **Review of Risk**

Members noted the contribution from projects such as BP Senegal and the risk should there be problems. The VPFACA confirmed to members that this was already in the register.

F/21/026 **Any Other Competent Business**

The Chair noted that the management accounts were included for information. The FM informed members that these had been produced at the same time as the Q2 forecast.

The Chair queried whether there was any indication of what the SFC indicative funding announcement might hold.

The VPFACA confirmed it was expected on Thursday of that week and that there were indications that some additional funding for Foundation Apprentices had been allocated. While welcome if true, this would be one off funding. She noted a further updated would be provided at the next meeting of the Board and, if the information was available, that this would be circulated to Committee members ahead of being issued to the Board.

4. Tuition Fees and Fee Waiver Policy Session 2022-23
For Approval

14 June 2022
FINANCE COMMITTEE

1. Purpose

To seek approval from the Finance Committee of the level of tuition fees and fee waiver policy for Session 2022-23.

2. Recommendation

That members discuss and approve the proposed tuition fees and fee waiver policy for Session 2022-23.

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 2021-22. Approval of the fee waiver policy will be subject to any changes made to the national policy for Session 2022-23.

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 2022-23, and as such the full time fees are shown below at the same levels as for 2021-22. It should be noted that these fees have not changed over the last eleven sessions, and are unlikely to change for Session 2022-23.

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

SQA fees are one of a few determinants when setting part time fees. SQA's fees have remained unchanged for the current Session and the previous five sessions, and although we won't know their position for Session 2022-23 in time to influence our fee setting, it's unlikely that Scottish Government would approve an increase in SQA fees.

The most recent Consumer Price Inflation (CPI) rate for March is 7%, with forecasts that this rate could increase to almost 10% through the remainder of this year. Through the last five years in bringing this report to LMT, CPI has not risen much above 2%, and has regularly been between

1% and 2%, and as such the recommendation has been to not increase our fees, with the last fee increase being in Session 2016/17.

Table 1 shows a comparison of our fees against other colleges. Of the colleges included only Edinburgh have published their fees for Session 2022/23, so show fees for the current session. For Session 2021/22 our fees are broadly in line with the sector, however all colleges will be facing inflationary pressures for 2022/23, so it's likely that all will be considering price increases.

Table 1 – Sector fee comparisons

	2021/22 Fees except Edinburgh, which are 2022/23					
	FVC	New College Lanarkshire	Fife	West Lothian	Dundee & Angus	Edinburgh
Further Education - rate per credit	115	115	115	125	115	130
Higher Education - rate per credit	130	120	130	125	125	140
Degree – rate per subject	205	n/a	FT only	n/a	FT only	FT only
ICDL	360	n/a	360	360	n/a	n/a
ICDL rate per unit	60	n/a	65	60	n/a	n/a
ICDL advanced per module	105	n/a	105	105	n/a	n/a
National 4/National 5/Higher	345	420	350	375	480	326

Taking all of these factors into account, and especially the inflationary pressures facing the College the recommendation is that the College does increase fees for Session 2022/23. Table 2 below shows the fee levels recommended, and the percentage increase alongside a 7% inflationary increase, by way of comparison. It's recommended that a consistent £10 increase is added to our part time FE and part time HE unit rate, both of which are just above the current rate of inflation. A £15 increase is recommended to the part time degree unit, which is close to the rate of inflation. A £25 increase is recommended for the full ICDL, with a £5 increase for ICDL rate per unit, and a £10 increase to the ICDL advanced rate, all of which are equal to or just above inflationary increases. It's recommended that a £30 increase is made to National 4, National 5 and Higher qualifications (being delivery of 3 FE units).

Table 2 – Recommended fees for Session 2022/23

	2021/22 Fee	2022/23 Fee Recommended	% Increase	Inflationary Increase	% Increase
Further Education - rate per credit	115	125	8.7%	123	7.0%
Higher Education - rate per credit	130	140	7.7%	139	7.0%
Degree – rate per subject	205	220	7.3%	219	7.0%
ICDL	360	385	6.9%	385	7.0%
ICDL rate per unit	60	65	8.3%	64	7.0%
ICDL advanced per module	105	115	9.5%	112	7.0%
National 4/National 5/Higher	345	375	8.7%	369	7.0%

A similar exercise of comparing International and RUK fees across Colleges was also undertaken by the Director of Commercialisation and our Contracts Officer. This exercise established that the current fees charged by the College for International/RUK were towards the lower end of the scale. With this in mind, and taking account of inflationary pressures, the recommendation is to increase our full time fees by 10%, with similar increase for part time rates by Credit. Bespoke international provision will continue to 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 set through our established costing model.

National Fee Waiver

SFC have not yet published fee waiver guidance for Session 2022/23, which is expected in June. There is one expected addition to the National Fee Waiver Policy, which is to enable Ukrainian nationals who have applied to one of the UK or Scottish Government settlement schemes, or who have ordinarily resident in Scotland, to be eligible for fee waiver. The only other expected change is likely to be the threshold levels for means-tested fee-waiver. 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 – It is estimated that the proposed increases in fees would generate an additional £10K in part time fees, with a further £3K generated through evening course fees for unitised HE and FE provision.

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 that the increase in fees may be a barrier to some students enrolling, however our proposed fees are in line with other colleges, and reflect inflationary costs incurred by the College. The College will continue to promote fee waiver for students who meet the criteria.

Risk Owner – David Allison

Action Owner – Mhairi Archibald

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 – David Allison

SMT Owner – David Allison

5. Accounting Policies for year ended 31 July 2022
For Approval

14 JUNE 2022
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 2022.

2. Recommendation

That members approve the accounting policies for application to the Report and Financial Statements for the year ended 31 July 2022.

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.

4. Key Considerations

The proposed accounting policies are attached for consideration. No changes have been made to the accounting policies since they were last presented to the Finance Committee on 15th June 2021. The financial statements will include additional narrative as requested by the external auditors, Ernst & Young. This is not repeated in detail here, as it will specifically relate to the results of the year to 31 July 2022 and the balance sheet at that date, and does not alter the policies being applied.

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

Risk Owner – Alison Stewart

Action Owner – Alison Stewart

7. Other Implications

Communications – No

Health and Safety – No

Paper Author – Moira France

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 2019/20 Government Financial Reporting Manual (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. Forth Valley College is a public benefit entity as defined by FRS102.

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 College's financial statements for 2021/22 have been prepared on a going concern basis. The going concern assessment period considered by the College covers the period from the approval of these financial statements through to 31 July 2024. As a public body, the College is presumed to be a going concern unless there is a stated intention to withdraw the statutory services it provides under legislation. We have not been informed by the Scottish Government of any such intention.

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 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.

6. Procurement Strategy, Policy and Procedures For Approval

14 June 2022
FINANCE COMMITTEE

1. Purpose

To notify members of changes to procurement strategy, policy and procedures and to seek approval thereof.

2. Recommendation

That members approve the new Procurement Strategy 2022-2025 and the changes to the
- Procurement Policy
- Procurement Procedures and appendices

Furthermore, members note the requirement for all departments to adhere to the provisions of the Procurement Policy and Procurement Procedures.

3. Background

The Procurement Reform (Scotland) Act 2014 introduced a regulatory duty on public contracting authorities with over £5m procurement expenditure to publish a procurement strategy and review it annually.

4. Key Considerations

The key changes in procurement documentation include:
- Setting out 3 new procurement strategic objectives, outcomes, main actions and commitments, and key performance indicators.
- Covering the Public Sector Equality Duty in the procurement policy.
- Clarifying the tender process for below regulated threshold for the procurement of works (less than £2m excl. VAT) in the procurement procedures.
- Adding new appendices to the procurement procedures on how to write a specification and new standard terms and conditions.

5. Financial Implications - None

6. Equalities – EQIA completed

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		
Very Low	x	x

Minor changes to procurement documentation.

Risk Owner – Alison Stewart   **Action Owner –** Ester Vasallo

8. Other Implications

Communications – Yes

Health and Safety – Health and Safety obligations of our contractors and subcontractors are covered in the procurement strategy, policy and procedures.

The procurement strategy and policy will be published on the College website.

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

7. Budget 2022-23
For Discussion & Endorsement

14 June 2022
FINANCE COMMITTEE

1. Purpose

To present members with the Revenue Budget for 2022-23, for discussion and endorsement to submit this budget to the Board of Management.

2. Recommendation

That members consider the revenue budget for 2022-23 and:

- Discuss the Revenue Budget for 2022-23, including the assumptions being used, and the remaining risks.
- Note that although the presented budget is in deficit, once one-off costs funded from prior year surplus are separated out, the Core College position is a small surplus.
- Approve submission of the budget to the Board of Management.
- Note and discuss the implications for future years following publication of the Scottish Government's Spending Review.

3. Background

This budget is prepared on the basis that we will operate a full hybrid learning model that is primarily face-to-face in campus for the full year. Much of the expenditure at FVC is unavoidable arising directly from our core business and estates portfolio. Predicted changes to the underlying expenditure as a consequence of economic inflationary pressures and staff working a hybrid between office and home have been incorporated.

The budgeted position for 2022-23 is set out in Appendix 1, and has been split in to a Core operating surplus of £245k, which after providing for the loan repayments is a surplus of £44k, with one-off costs of £545k resulting in the presentation of a reportable adjusted operating deficit of £501k.

Scottish Funding Council requires Colleges to balance their income & expenditure accounts over a period of 2-3 years, allowing deficits in one year to be covered by surplus in another year. For academic year 2020-21 FVC made an underlying operating surplus of £1.8m. The recently completed Q3 forecast for 2021-22, projects that the deficit will be substantially below the £1.8m leaving surplus for 2022-23, hence the allowance for carried forward/exceptional one-off costs of £545k.

This budget, along with the Q3 forecast will form the basis of the FFR part one, due by the end of June comprising 2021-22 and 2022-23. The full FFR covering forward to 2026-27 is due by 30 September 2022, and this will be presented to the Finance Committee before submission.

4. Key Considerations

The key assumptions and explanations are set out in Appendix 2. It has been apparent for some years now that Grant in Aid income has not kept pace with FVC staffing and property costs. The funding allocations from SFC for grant in aid was a decrease of 4%, within which there was ring-fenced funding for Foundation Apprenticeships and a reduction in core credits (1.9%) to provide some assistance with cost pressures. However, when pay awards and increased energy costs are taken in to account, the real decrease in funding is 8%.

The College sector is therefore working in an austere funding environment, and following the recent publication of the Scottish Government Resource Spending Review, it is clear that this will continue until at least 2026-27.

Tight financial control continues to be of paramount importance, given the narrow margin of surplus the College is working within. [redacted]

The following table highlights key financials, including the Q2 data which benchmarks the narrative in Appendix 2, and the recently completed Q3 exercise.

Adjusted Operating Position	2022-23 Budget £'000	2021-22 Q3 forecast £.000	2021-22 Q2 forecast £.000	2020-21 Outturn £'000
Total income per I&E	35,696	36,623	36,582	34,695
Total expenditure per I&E	(35,996)	(36,806)	(37,052)	(32,706)
Operating (deficit) surplus	**(300)**	**(184)**	**(470)**	**1,989**
Revenue funding allocated to loan repayments	(201)	(193)	(193)	(184)
Reportable Adjusted Operating Position	**(501)**	**(377)**	**(663)**	**1,805**
Available surplus from 20-21 carried forward	**555**	**1,805**	**1,805**	
Spend of prior year surplus - detail below	545	1,249	1,462	
Carried forward to 22-23		555	338	
International surplus for carry forward to 22-23		**748**	**748**	
Underlying Core Operating Position	**44**	**124**	**51**	

One Off Expenditure	Budget 2022-23	Q3 Forecast 2021-22	Q2 Forecast 2021-22
HR system integration	150		
Temporary energy price hikes - 60% of increase	162		
LMT development training	50		
Scanning of MA paperwork project	38		
Consultancy for FIZ outline business case	48		
Project management resource	97	20	100
Remedial works on the Falkirk campus		230	230
HR & Financial budgeting systems		71	221
Additional Curriculum manager resource		175	175
Scanning of Westfield rig for VCR		50	
Exceptional repairs to Stirling fridge		58	
Current year core deficit		-	91
[redacted]		[redacted]	[redacted]
Total	**545**	**1,249**	**1,462**

SFC has recently provided the financial assumptions for the budget period, but these do not align with our own assumptions, as we have been more realistic than just assuming public sector pay increases for 2022-23. Rather than providing SFC an unrealistically positive surplus position in the FFR submission, this will be addressed by providing our own budget as the FFR baseline, and then adjusting for the scenario of public sector pay and providing commentary addressing the impact of this variation.

5. Financial Implications

Within this budget, there are a number of areas of financial risk, which are noted in section 8 below, and in summary are:

- Resolution of negotiations with Unions on pay awards, every 1% pay increase is c£250k. While September 2021 is almost agreed, the September 2022 negotiations now begin.
- [redacted]
- Energy prices – substantial increases are included based on the current price caps only
- Updating the forward forecasts for the following 3 years to determine the likely gap should funding be confirmed as flat cash, and therefore the need for any further efficiencies to be identified. This is currently being carried out as a high level exercise for the purposes of the FFR (see table below) but we require confirmation from SFC of future funding levels before this exercise can be properly undertaken.

6. Implications of the Scottish Government Spending Review

[redacted]

The impact for College funding will be twofold - a flat cash grant in aid allocation plus the removal of the additional funding for Foundation Apprenticeships. Whilst there may be some redistribution of the overall pot between individual colleges, the impact on FVC is likely to be greater than most due to the size of our FA programme.

The table below gives an indication of the potential severity for FVC, albeit we would hope for some level of grant redistribution. As noted above, the projected outturn for 2021-22 in the Q3 forecast includes a core surplus of £124k plus the international surplus of £748k, [redacted]

Impact of Future Funding Levels	2023-24
[redacted]	

7. Equalities

☒☒An equalities assessment is not required given the nature of this report.

8. Risk

	Likelihood	Impact
Very High		x
High	x	
Medium		
Low		
Very Low		

There are specific risks to be highlighted at this time, and the potential financial implications noted where known:

- The contract awarded by SDS for the year to March 2023 of £1.4m is below the level at which we expect to be claiming. Budgeted income (£1.76m) is therefore dependent on in-year requests for additional funds being granted, but this has never been a problem in past years, and we would view this risk as low.
- The pay awards offered for September 2021 whilst not formally agreed with either of the Unions, have been recommended to their members. The pay award for September 2022 remains to be negotiated. We have mitigated this risk by budgeting for the same pay award as this year, although realistically this is not affordable in the longer term.
- [redacted]

Risk Owner – Alison Stewart

Action Owner – Alison Stewart

Paper Author – Senga McKerr

SMT Owner – Alison Stewart

8. Q3 Forecast Outturn 2021-22
For Discussion

14 June 2022
FINANCE COMMITTEE

1. Purpose

To present the Forecast Outturn for Academic Year 2021-22 to members for discussion.

2. Recommendation

For members to consider the Forecast Outturn for the year to 31 July 2022 and note the changes from the Q2 forecast including the remaining uncertainties therein.

3. Background

A forecasting exercise has been carried out to ensure our financial targets remain on course to provide a projected core surplus for the academic year.

SFC gave approval for the College to carry forward the adjusted operating surplus of £1.8m realised in 2020-21, to be spent on a restructuring programme, implementation of new processes and systems to achieve efficiencies, and costs deferred from 2020-21. This resulted in the presentation of a deficit budget for 2021-22. The Q2 forecast maintained that deficit adjusted operating position of £1,750k, albeit with the final allocations of £1.1m of spend remaining to be determined.

This Q3 report provides a forecast outturn for the year compared to the Q2 forecast, and highlights the expected spend and thus the remaining balance of the £1.8m carried forward surplus.

4. Key Considerations

The revenue forecast, is set out in Appendices 1 and 2, and has been split in to a Core operating surplus of £317k, which after providing for the loan repayments is a surplus of £124k, with [redacted]

[redacted] The budget paper for the Finance Committee notes items totalling £545k therefore this amount is sufficient to cover these costs, leaving the balance for possible severance.

Adjusted Operating Position	2021-22 Q3 forecast £.000	2021-22 Q2 forecast £.000	2020-21 Outturn £'000
Total income per I&E	36,623	36,582	34,695
Total expenditure per I&E	(36,806)	(37,052)	(32,706)
Operating (deficit) surplus	**(184)**	**(470)**	**1,989**
Revenue funding allocated to loan repayments	(193)	(193)	(184)
Reportable Adjusted Operating Position	**(377)**	**(663)**	**1,805**
[redacted]			
Underlying Core Operating Position	**124**	**51**	

One Off Expenditure	Q3 forecast	Q2 forecast
Project management resource	20	100
Remedial works on the Falkirk campus	230	230
HR & Financial budgeting systems	71	221
Additional Curriculum manager resource	175	175
Scanning of Westfield rig for VCR	50	
Exceptional repairs to Stirling fridge	58	
Current year deficit	-	91
[redacted]		
Total	**1,249**	**1,462**

Overall income is an increase on Q2 of £41k

The key movements to note include:

Income - key movements	2021-22 Q3 forecast £.000	2021-22 Q2 forecast £.000	Variance £'000
Total income per I&E	**36,623**	**36,582**	**41**
ESF clawback for 16-17 less than provided for			40
Tuition fee receipts from SAAS			**(71)**
[redacted]			

[redacted]

Tuition fees - following the main receipt of SAAS tuition fees, the forecast has been reduced.

The substantial increase in Commercial training courses is made of up [redacted]

The drop in income from Modern Apprenticeships SDS milestones has arisen from a delay in the timing of claims and deferring some income paid early by SDS in to the 2022-23 budget. [redacted]

Overall Expenditure is a saving on Q2 of £246k

The key movements to note include:

Expenditure - key movements	2021-22 Q3 forecast £.000	2021-22 Q2 forecast £.000	Variance £'000
Total expenditure per I&E	**36,806**	**37,052**	**(246)**
[redacted]			
Salary gap posts offset by additional hours			(140)
HR system delay to 22/23			(150)
Academic materials			(50)
Exam fees			(42)
Energy price increases			117
Scanning of Westfield rig for VCR			50

The forecast for salary costs includes deductions for strike action £75k, and year to date savings from delays in posts being filled. A freeze was placed on recruitment prior to the VS consultation creating salary savings, partly offset by additional hours and overtime being over budget. The pay award for September 2021 is included as per the most recent offer made to the Unions. [redacted]

The implementation of a new HR and payroll system has been delayed in to 2022-23 to allow sufficient time for the analysis of needs and the tender process. The costs allowed for this of £150k have been moved in to the Budget for 2022-23.

There is a saving within both Engineering and Construction, which are the 2 main cost areas for materials, as the Operations Managers are concerned about the ability to spend their full allocations before 31 July. The forecast for exam fees has been reduced following discussions for the Budget for 2022-23, and reviewing historical actual costs.

The recent increase in energy prices has added £117k to the FVC forecast, based on detailed data directly from the energy companies. Much of the cost derives from fixed charges, providing little opportunity for reducing these costs. Other increases within property costs included additional maintenance as we have spent on repairs while we have had the funds to do so.

An exercise to scan the Westfield rig to provide simulated software for use as a teaching material in the Virtual Control Room has been carried out, and £50k added to the itemised list of one-off costs for the year. This is included within Learning & Teaching Other costs.

Unresolved issues and areas of risk

The final outturn for the year will depend on the outcome of various issues, which could financially impact FVC, including:

- The final outcome of the Voluntary Severance scheme including payments in lieu of notice and outstanding holiday payments.
- ESF clawbacks for prior years being clarified, in particular for 2020-21 where we have an issue with a lack of signed paperwork. This historically has taken 3-4 years to be resolved.
- A pay increase of £1,000 consolidated for both academic and corporate services staff has been offered as a full and final pay deal, and is included in this forecast from September 2021. At the time of writing this offer has been recommended to Union members and is currently being balloted.

5. Financial Implications

Overall the forecast Core underlying operating position is in surplus. The College is in a fortunate position of having money to spend this year due to the surplus from 2020-21 and the BP Senegal project. The surplus to be carried forward to 2022-23 requires SFC approval and we will make contact to discuss this in June.

6. Cash Balances

The forecast for the bank balance as at 31 July 2022 is £3.6m, and this includes £1.8m of committed funds.

7. Equalities

An assessment is not applicable given the nature of this report.

8. Risk

	Likelihood	Impact
Very High		x
High		
Medium		
Low		
Very Low	x	

Due to the extent of the forecast surplus when the international income is included, the risk of the College not being able to achieve a forecast operating surplus is very low.

However, close monitoring and dialogue with SFC will be essential to ensure that we do not inadvertently freeze cash, which could happen if we do not obtain agreement from SFC to carry forward underspend and/or commercial surplus in to 2022-23.

Risk Owner – Alison Stewart

Action Owner – Senga McKerr

Paper Authors – Senga McKerr / Moira France

SMT Owner – Alison Stewart