Forth Valley College

Agenda

13 June 2023
FINANCE COMMITTEE

Stirling Campus, Room S1.018, 4.30pm

AGENDA

1. Declarations of Interest

FOR APPROVAL

2. Minutes of Meeting of 15 November 2022

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

3. Matters Arising - None

4. Tuition Fees & Fee Waiver Policy Session 2023-24 — David Allison

(Elements of paper 4 are withheld from publication on the Forth Valley College website under Section 25 Information Otherwise Accessible of the Freedom of Information (Scotland) Act 2002 – https://www.forthvalley.ac.uk/about-us/publications-forms/)

5. Accounting Policies for year ended 31 July 2023 — Moira France

6. Procurement Update — Ester Vasallo

(Elements of paper 6 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/)

7. Tender approvals — Senga McKerr
   (a) Insurance
   (b) ECiTB Accommodation

(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.)

FOR DISCUSSION

8. Q3 High Level Forecast Outturn 2022-23 — Moira France

(Elements of paper 8 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.)

9. Revenue and Capital Budgets 2023-24 Senga McKerr

(Elements of paper 9 are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

10. Financial Forecast Return 2022-26 Senga McKerr

(Paper 10 is withheld from publication on the Forth Valley College website under Section 36 Confidentiality of the Freedom of Information (Scotland) Act 2002.)

11 Review of Risk

12. Any other competent business

FOR INFORMATION
Budget Monitoring 10 Months to 26th May 2023
(Elements of this paper are withheld from publication on the Forth Valley College website under Section 33 Commercial Interests and the Economy of the Freedom of Information (Scotland) Act 2002.)

Internal Audit Report – Budgetary Control

Steeple Suite, Falkirk (commencing at 4.00pm)

Present: Liam McCabe
Trudi Craggs
Ken Richardson

Apologies: Andrew Caldwell
Lindsey Hastie
Amber Little

In Attendance: Professor Ken Thomson, Principal
Alison Stewart, Vice Principal Finance and Corporate Affairs (VPFACA)
Kenny MacInnes, Vice Principal Learning and Student Experience (VPLSE)
Senga McKerr, Director of Finance (DOF)
Moira France, Finance Manager (FM)
Stephen Reid, Ernst & Young
David Archibald, Henderson Loggie
Stephen Jarvie, Corporate Governance and Planning Officer (CGPO)
Ester Vasallo, Supply Chain Manager (SCM)

F/22/012 Declarations of Interest

None

F/22/013 Minute of Meeting of 13 September 2022

Members approved the minute of the meeting of 13 September 2022.

F/22/014 Matters Arising

3.1 F/22/005 Financial Forecast Return 2021/22 - 2026/27

The VPFACA confirmed that the committee's concerns had been raised at the Board of Management and a decision had been taken that the Chair would write to SFC. She noted that this had happened and SFC replied.

F/22/015 Annual Report and Financial Statements 2021/22 (Joint item with Audit Committee)

The Chair of Audit Committee chaired for items F/22/015 and F/22/016

The DOF presented the accounts for member's consideration.

She noted that, in the papers as issued, there had been a section regarding the donation to the ALF which had been under discussion with Ernst & Young when the papers were issued. She confirmed to members that a way forward had been agreed and the VPFACA confirmed the donation would remain in the 2021/22 accounts.

Members welcomed this update and queried if this meant the accounts were now unqualified.

The VPFACA confirmed the accounts were now unqualified.

The DOF noted that an assessment of going concern had been conducted again and was included in the papers. She highlighted that, with no corrective actions, there was a shortfall in cash flow later in 2023/24. She informed members that corrective actions were currently being examined for implementation.

Members queried the reason behind increase in the number of temporary contracts for staffing as outlined in the accounts.

The VPFACA informed members that, as the management knew there would be a restructuring exercise in 2021/22, the decision had been taken to award temporary contracts until such time as the new structure was in place. This had the additional benefit of protecting existing permanent staff member roles.

Members queried in regard to going concern, whether there was a need to request a letter of assurance from SFC.

The VPFACA noted that this had been discussed with Ernst & Young and that, if there were no corrective actions being taken in relation to projected cash flow issues, then there may have been a need to do so. Corrective actions and other changes are anticipated which would address the cash flow and thereby the need for an assurance letter.

Stephen Reid confirmed that discussions had taken place and, as this matter relates to College's across the sector, SFC will have to take a position on this. He noted that they have no issues with the College as a going concern however auditing standards would consider running out of cash flow a material uncertainty and therefore more information is needed to address this.

a) Members endorsed the accounts to the Board of Management subject to the issue of cash flow being addressed

F/22/016 Draft External Audit Annual Report to the Board of Management (Joint item with Audit Committee)

Stephen Reid presented the draft report to members. He noted that this was the sixth and final year Ernst & Young would be the College's external auditors.

He noted his thanks to the College finance team for their cooperation with the audit.

He informed members that the audit had not, to date, identified any adjustments that were required.

He noted that going concern had already been discussed at the meeting and that the text currently in the report would be updated once this was finalised.

[redacted]

He discussed the red rating in the report for financial sustainability and confirmed that while management had taken, and continue to take, corrective steps the external environment the College operates in called for this rating.

Members queried whether this rating applied to other Colleges and Stephen Reid confirmed that this was the case.

Members noted that, as a result of the discussions that had been taking place with management, the report as issued was not the final version. It was agreed that an updated version would be prepared and issued to members for consideration and comment ahead of the Board of Management meeting.

Members noted their thanks to the Finance team and Ernst & Young for their work on preparing the report.

a) Members endorsed the report in principal for submission to the Board of Management and agreed to review the updated report ahead of that meeting

F/22/017 Annual Procurement Report

The SCM presented the annual procurement report for members' consideration and approval to publish on the College website.

She outlined the content of the report and the attached appendices.

Members noted that there were two non-compliant procurements listed in the report and expressed concerns that one of these showed a material change and requested further information.

The SCM reported that a single provider had been awarded a network contract owing to delays in the handover of this contract from the campus constructors. The timeframe meant there was not sufficient time to conduct a full tender in time for the contract renewal so the College negotiated directly with the existing supplier to ensure continuity of service.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

In relation to appendix D of the report, members queried whether the College had to publicise the values of future procurements as this could lead to less competitive bids for these contracts.

The SCM noted the point made by members but confirmed publishing these figures is a mandatory part of the procurement report.

Members also noted that the KPI and target information in appendix g seemed to suggest that the performance of the College had decreased and asked what the reason for this was and whether this would risk the College's procurement rating.

The SCM informed members that, at the time of setting the targets for the previous year, the combination of coming off of a significant procurement period relating to the Falkirk Campus and the impact of Covid meant setting targets were more challenging.

Members commented that, while they appreciate they have to consider and approve the full report prior to publication, it would be useful if there could be a report highlighting the 4 or 5 key messages and underpinning data from the report to bring to members attention.

The VPFACA confirmed that this would be provided to the March meeting of the Committee and that a review of current targets previously approved by the Committee would be undertaken.

a) Members approved the Annual Procurement report

F/22/018 Q1 High Level Forecast 2022-23

The FM provided members with the Q1 forecast for 2022-23. She noted, since the 22/23 budget was approved by the Board in September, a number of updates had been made to reflect external changes such as SFC not approving the surplus to be carried forward, an increase in anticipated pay award to 5% which initially made a deficit position but taking into account income increases and costs savings, this resulted in a surplus.

She noted that there were still a number of risks and unresolved issues which were outlined in the paper.

Members acknowledge the risks and unresolved issues and queried whether the updated budget is a realistic scenario.

The HOF confirmed the biggest concern is in relation to pay negotiations and the VPFACA stated that the College had to proceed on the assumption that there would not be additional funding provided to support the pay offer.

The VPFACA also noted that there was a £56m funding allocation sitting with SFC at this time to fund the outcome of the sector wide support staff job evaluation activity which had been ongoing for some time.

She noted that there were concerns that this money may be reallocated and this would impact the staff covered by job evaluation.

a) Members noted the content of the report

F/22/019 Student Funding Outturn 2021/22 and Forecast 2022/23

The DOF presented a paper updating members on student funding for the previous academic year and the forecast spend for the current year.

She informed members that last year the College had not needed to request additional funding at the in year redistribution point. She highlighted that there was still an underspend at the end of that year and explained that a large part of this was the introduction of free bus travel to under 21's which reduced the requirement for travel cost support.

She noted that, for 2022/23, SAAS had reintroduced a £4k funding cap for HE students but SFC had not done a similar exercise for FE students so there was some disparity resulting from this depending on the students' course.

She highlighted that, based on current spend, there was an anticipated underspend of £700k for this year. Given the pressures of cost of living, fuel etc she informed members that the team were currently investigating ways this money could be allocated to a cost of living grant to help out students who are struggling.

Members noted that is seemed sensible to retain the projected underspend and allocate this to students who need it.

a) Members noted the content of the report

F/22/020 Review of Risk

The financial risks highlighted in the minute were noted.

F/22/021 Any Other Competent Business

None

Forth Valley College

4. Tuition Fees and Fee Waiver Policy Session 2023-24
For Approval

13 June 2023
FINANCE COMMITTEE

1. Purpose

To seek approval from the Finance Committee of the level of tuition fees and fee waiver policy for Session 2023-24.

2. Recommendation

That members discuss and approve the proposed tuitions fees and fee waiver policy for Session 2023-24.

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 2022-23. Approval of the fee waiver policy will be subject to any changes made to the national policy for Session 2023-24.

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 2023-24, and as such the full time fees are shown below at the same levels as for 2022-23. It should be noted that these fees have not changed over the last eleven sessions, and are unlikely to change for Session 2023-24.

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 2023-24 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 April is 8.7%, with forecasts that this rate could decrease over the coming year, with uncertainty on when and how sharply any decreases will come. The National Institute of Economic and Social Research is predicting a fall in inflation, but that inflation will remain well above 3% for the whole of 2023, through its forecasts based on four different economic scenarios. With the exception of last session where a £10 increase in our FE and HE rates were approved, over 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 previous fee increase being in Session 2016/17.

Table 1 shows a comparison of our fees against other colleges. Of the colleges included, only Fife and West Lothian have published their fees for Session 2023/24, so fees shown are for the current session. For Session 2022/23 our fees are overall higher than neighbouring colleges.

Table 1 – Sector part-time fee comparisons

	2022/23 Fees except Fife and West Lothian, which are 2023/24					
	FVC	New College Lanarkshire	Fife	West Lothian	Dundee & Angus	Edinburgh
Further Education - rate per credit	125	120	110	125	120	111
Higher Education - rate per credit	140	130	120	125	130	111
Degree – rate per subject	220	n/a	320	n/a	FT only	FT only
ICDL	380	n/a	360	n/a	n/a	n/a
ICDL rate per unit	65	n/a	65	n/a	n/a	n/a
ICDL advanced per module	115	n/a	115	n/a	n/a	n/a
National 4/National 5/Higher	375	420	360	375	400	333

Taking all of these factors into account, and especially the comparison of our fees against neighbouring colleges the recommendation is that the College doesn't increase fees for Session 2022/23. Table 2 below shows this recommendation alongside an 8.7% inflationary increase, by way of comparison.

Table 2 – Recommended part-time fees for Session 2023/24

	2022/23 Fee	2023/24 Fee Recommended	% Increase	Inflationary Increase	% Increase
Further Education - rate per credit	125	125	0.0%	136	8.7%
Higher Education - rate per credit	140	140	0.0%	152	8.7%
Degree – rate per subject	220	220	0.0%	239	8.7%
ICDL	380	380	0.0%	413	8.7%
ICDL rate per unit	65	65	0.0%	71	8.7%
ICDL advanced per module	115	115	0.0%	125	8.7%
National 4/National 5/Higher	375	375	0.0%	408	8.7%

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.

An exercise of comparing International and RUK fees across Colleges was also undertaken by our Head of Commercial & Training Delivery. This exercise established that the current fees charged by the College for International/RUK students for HNC/D delivery was below that of competitor colleges, which is shown in Table 3. With this in mind, it is proposed to increase our rate per HN Credit to £700, with a full year of delivery at HNC/D level increased to £8,000. It's proposed to keep all other International/RUK costs at their existing levels. Bespoke international provision will continue to be priced on an individual contract basis.

Table 3 – HNC/D costs sector comparison for International/RUK Students

College	Full HNC/D Cost per year
Forth Valley College	£6,600
Edinburgh College	£8,000
City of Glasgow College	£7,500
Dundee & Angus College	£7,875

National Fee Waiver

SFC have not yet published fee waiver guidance for Session 2023/24, which is expected in June. The only expected change is likely to be 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. Resource Implications (Financial, People, Estates and Communications)

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 (attached)

7. Communities and Partners

Not applicable.

8. Risk and Impact

Please complete the risk table below. Risk is scored against Likelihood x Impact, with each category scored from Very Low through to Very High. Risks should be robustly scored and, if the combined score (Likelihood x Impact) is higher than the Board Risk appetite for the risk category identified, additional justification must be provided on why this risk is necessary.

	Likelihood	Impact
Very High (5)		
High (4)		
Medium (3)		
Low (2)	X	X
Very Low (1)		

Total Risk Score – 4

The College has a Strategic Risk appetite for categories of risk as defined by the Board of Management. Decisions being taken at LMT/SMT/Board level must have cognisance of this. Please indicate the single most relevant risk category in the table below.

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial		Project/Programme	
Property		Reputational	X		
		Technology			

The only risk identified is that the College's fees remain high compared to neighbouring colleges, however our proposal is not to increase fees from their current level. The College will continue to promote fee waiver for students who meet the criteria.

Is the score above the Board Risk Appetite level? No

Risk Owner – LMT

Action Owner – LMT

Paper Author – David Allison

SMT Owner – David Allison

5. Accounting Policies for year ended 31 July 2023
For Approval

13 June 2023
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 2023.

2. Recommendation

That members approve the accounting policies for application to the Report and Financial Statements for the year ended 31 July 2023.

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 14th June 2022. The financial statements will include additional narrative as requested by the external auditors, Mazars. This is not repeated in detail here, as it will specifically relate to the results of the year to 31 July 2023 and the balance sheet at that date, and does not alter the policies being applied.

5. Resource Implications (Financial, People, Estates and Communications)

There are no resource implications from this report.

6. Equalities

As this is a finance report on accounting practices, an equalities assessment is not applicable.

7. Communities and Partners

Given the nature of this report, it does not involve, or provide benefit to, stakeholder groups.

8. Risk and Impact

Applying these Accounting Policies is considered very low risk as there has been no change to the Accounting Standards we conform to and no change to Forth Valley College activities.

	Likelihood	Impact
Very High (5)		
High (4)		
Medium (3)		
Low (2)		
Very Low (1)	x	x

Total Risk Score – 1

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance	x	Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No, the score is less than the risk appetite for this category.

Risk Owner – Alison Stewart
Paper Author – Moira France

Action Owner – 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 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 2022-23 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 December 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 Update
For Approval

13 June 2023
FINANCE COMMITTEE

1. Purpose

To inform members of procurement activity, the status of the Procurement Strategy Action plan and seek approval for changes in Procedures and Procurement Strategy.

2. Recommendations

That members consider and discuss the following:

- The status of the Action Plan in appendix 1.
- Awarded contracts and benefits in appendix 2.
- Approve the change in thresholds for obtaining quotations and minor amendments to Procurement Procedures as noted in section 4 below.
- Note that no changes are proposed to the Procurement Policy.
- Note the implementation of a no PO no payment procedure.
- Approve the changes in the Procurement Strategy in appendix 3.

3. Background

Our Procurement Strategy (appendix 3) contains an Action Plan with actions, commitments and KPIs. A 6 months update of the current financial year has been provided in appendix 1.

Our Procurement Annual Report 2022/2023 will be presented for approval to the Finance Committee in November 2023 and published on our website in December 2023.

4. Key Considerations

Detailed information on awarded contracts and collaborative and local benefits has been provided in appendix 2 as of March 2023.

<u>Awarded contracts:</u>
20 awarded contracts have been added to our Hunter contracts register since 1st August 2022. This includes 2 regulated contracts (subject to procurement regulations): iTrent payroll and HR solution and classroom furniture.

<u>Collaborative framework benefits:</u>
Please see Scottish Publicly Funded Sectors Procurement Benefits Reporting Guidance for information on the benefits we can report.

These are savings from using APUC and other collaborative framework agreements in 2022/2023. Please note that many suppliers have not reported our spend yet and will do from August 2023. We forecast that our collaborative spend will be in the region of £2m.
2022/2023 Year to Date reported by suppliers:

- Collaborative Spend: £690,355
- BT1: £44,823
- BT2: £99,552

Local Benefits:
These are savings that have been forecasted for 2022/2023 and 2023/2024 when awarding a local contract (not through a framework agreement) or they have been calculated in addition to the collaborative framework benefits when awarding a call-off contract. It covers contracts that have been awarded in the current and previous financial years.

Year/Benefit Type	Sum of Annual Forecasted Benefit Value
2022/2023	
BT1 (£) CAT C Local Cash Savings	69,279
BT2 (£) CAT C Local Non-Cash Savings	71,789
BT8 - Make v Buy / Outsourcing	23,333
2023/2024	
BT1 (£) CAT C Local Cash Savings	48,142
BT2 (£) CAT C Local Non-Cash Savings	51,443

Action Plan:
The Action Plan contains the RAG status of actions and commitments. Some actions are scheduled for later in the year and therefore, marked in red. The following actions and KPIs are behind schedule in meeting targets:

- New Moodle staff induction course: This was planned to be made available to staff from May 2023 but due to workload this has been delayed until August 2023.
- Compliant expenditure as % of influenceable expenditure: It is 86%, £2,815,440 out of £3,268,615 (total non-pay spend) with 6 months data. It was 90.8% in 2021/2022. We have 14 suppliers non-compliant with procurement regulations. We continue to communicate procurement procedures, promote the use of compliant agreements, move spend to frameworks, deliver training and schedule tenders. Please see appendix 4 for more details.
- Number of suppliers with catalogues being used: More sessions on the use of catalogues will be scheduled to increase use. We have plans to create a catalogue for our PPE and work wear contract.
- % of invoices with associated POs: A PO no payment procedure is being implemented to improve this.

No PO no Payment:
We are implementing a no PO no payment procedure from the new academic year, with a grace transition period of 3 months. This would mean that the College would not pay suppliers unless they quote a valid purchase order on their invoice. This procedure aims to strengthen financial controls of purchases, keep audit trail of authorisation of purchases, improve compliance with procurement procedures and improve prompt payment. This is common practice within both the sector and business in general.

Procurement Procedures and Quotation Thresholds:
We are seeking approval to increase our procurement thresholds for obtaining quotes. Our current thresholds requiring 3 quotes of £3,000 (ex VAT) for goods and services and £5,000 (ex

VAT) for works have not changed since 2017. We carried out a brief review of other College limits, and in line with both Fife and Ayrshire Colleges, we propose to increase the threshold for all procurements (goods and works) to be inclusive of VAT as follows.

- Below £6,000 will require one quotation.
- £6,000 to £25,000 = 3 quotes.
- Above £25,000 no change to thresholds from the Procurement Procedures.

Financial Regulations:
If approved, the Financial Regulations will be updated to reflect the changes to thresholds and procedures.

The following tracked changes have been made to the Procurement Procedures for Finance Committee approval:

- The quotation thresholds have been amended as above.
- It is recommended rather than mandatory that departments complete a Summary Quotation Form to record quotations.
- It is recommended that our standard terms and conditions are issued with invitations to quote.
- Purchase orders shall be raised following the appointment of a supplier through a quotation process.
- Prompt payment in the supply chain and climate change plans have been added as criteria to consider in the Single Procurement Document for regulated procurements.
- The lessons learnt stage has been added to regulated procurements.
- A new version of our standard terms and conditions is available with additional clauses on payment of sub-contractors.

Procurement Strategy 2022-2025:
Minor amendments are proposed to section 3 (pages 5 to 7) of the College Procurement Strategy to align it to the recently published Public Procurement Strategy for Scotland 2023 to 2028.

5. Resource Implications (Financial, People, Estates and Communications)

Communications

- Changes to procedures and thresholds will be directly communicated to all relevant staff, plus a general message sent via e-Focus to all staff. New quotation thresholds and terms and conditions will also be published on our website.
- Suppliers will be contacted by the Finance Team to advise of the changes to procedures regarding Purchase Orders.
- We will publish the Annual Procurement Report on the College website as soon as it is approved by the Finance Committee and no later than 31st December 2023.
- The revised Procurement Strategy will be published on our website and sent to Scottish Ministers.

6. Equalities

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

7. Communities and Partners

The implementation of the no PO procedure will require discussion with staff and communication with suppliers.

8. Risk and Impact

Failure to follow procurement policy and procedures could result in non-compliance with the financial memorandum, procurement legislation, and no legal contracts in place. This risk is mitigated by ongoing staff training and the implementation of the "No PO No Payment" process. The risk of procurement procedures not being followed is considered to be low, but if there is non-compliance the impact tends to be greater.

	Likelihood	Impact
Very High (5)		
High (4)		x
Medium (3)		
Low (2)	x	
Very Low (1)		

Total Risk Score – 8

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No

Risk Owner – Senga McKerr
Paper Author – Ester Vasallo

Action Owner – Ester Vasallo
SMT Owner – Alison Stewart

7. Procurement Tender for Insurance Services
For Approval

13 June 2023
FINANCE COMMITTEE

1. Purpose

To present to members the APUC Evaluation Document and College recommendation in relation to the tender for Insurance Services

2. Recommendation

That members:

- Consider the evaluation document (attached)
- Approve the inclusion of cyber insurance
- Approve the award of contract to Education Protect Scotland Limited.

3. Background

The current contract for Insurance Services expires on 31 July 2023. There is a framework agreement for Non-Life Insurance that APUC has tendered on behalf of colleges and universities in Scotland. The companies on this framework are:

- Education Protect Scotland Ltd
- CCRS Brokers Ltd
- Zurich Municipal

In order to use the framework a mini-competition tender exercise was undertaken for the provision of Insurance Services, including all aspects of the management of risk through to claims management and handling. Education Protect Scotland and Zurich Municipal responded to the tender request.

As the value over a 4 year period will exceed £500k, the Finance Committee is asked to provide approval on behalf of the Board of Management.

4. Key Considerations

The mini-competition tender is for a 4 year contract period commencing 1st August 2023. It is a fixed price for 2 years plus 2 extensions each of one year.

In accordance with the procurement regulations, the College evaluated bidders' responses to determine the Most Economically Advantageous Tender. Each bidder was subject to a Technical (40%) and Commercial (60%) evaluation. The Technical aspects of the bids were evaluated by the Director of Finance and the Finance Manager. The Supply Chain Manager evaluated the Commercial aspects and a meeting was then held to achieve consensus on the winning bidder.

[redacted]

Cyber Insurance
The tenders were evaluated on the basis that the College would not take cyber insurance which was separated in the tender exercise. This is not a product we have taken in the past, as the insurance industry was still developing a reasonable offering. The Vice Principal of Infrastructure & Communications is now of the opinion that the offering and premium costs make this a worthwhile step in mitigating risk from cyber events.

5. Resource Implications (Financial, People, Estates and Communications)

The current policy for Insurance Services costs FVC £104k per annum, including IPT and VAT. The winning bid from Education Protect Scotland is at a price of £116k for 2023-24 (held for 2024-25) plus £18k for the Cyber policy. This is a substantially lower price than quoted by our current insurers, Zurich Municipal.

6. Equalities
As this is a finance report, an equalities assessment is not applicable.

7. Communities and Partners
Given the nature of this report, it does not involve, or provide benefit to, stakeholder groups.

8. Risk and Impact
The insurance cover provided in each of the tender responses was as requested and therefore comparable.

	Likelihood	Impact
Very High (5)		
High (4)		
Medium (3)		
Low (2)	x	x
Very Low (1)		

Total Risk Score – 4

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		Open 15> <20		Eager >20	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No

Risk Owner – Alison Stewart
Paper Author – Senga McKerr

Action Owner – Senga McKerr
SMT Owner – Alison Stewart

7. Procurement Tender for Apprentice Accommodation
For Approval

13 June 2023

FINANCE COMMITTEE

1. Purpose

To present to members the award recommendation report in relation to the tender for apprentice accommodation.

2. Recommendation

That members:

- Consider the award recommendation report (appendix 1) for apprentice accommodation.
- Approve the award of the contract to The Park Hotel (Falkirk) Limited pending of inspection of hotel premises.

3. Background

Our contract with ECITB requires us to provide accommodation for apprentices that attend the Falkirk campus during their 20.5 months programme. A tender process was undertaken to appoint a provider.

[redacted]

4. Key Considerations

The contract is planned to commence on 11th September 2023 and to end on 31st May 2025.

Due to the limited availability of accommodation in the Falkirk area, we received 1 tender response from the incumbent provider, The Park Hotel (Falkirk).

The Park Hotel (Falkirk) will hold the price of [redacted] person and night for a minimum of 1 year from the date of commencement of the contract.

Tender responses were subject to a Technical (40%) and Commercial (60%) evaluation. Technical responses were scored by the Director of Commercialisation & Skills and the Client Manager – Business Development. A meeting was then held to achieve consensus on the technical scores. The Supply Chain Manager evaluated the Commercial aspects. A price negotiation took place led by the Client Manager.

[redacted]

5. Resource Implications (Financial, People, Estates and Communications)

[redacted]

An inspection of the hotel premises will take place during w/c 26th June 2023 to verify health and safety standards.

6. Equalities

As this is a finance report, an equalities assessment is not applicable.

7. Communities and Partners

Given the nature of this report, it does not involve, or provide benefit to, stakeholder groups.

8. Risk and Impact

The provider written tender response meets the College requirements.

	Likelihood	Impact
Very High (5)		
High (4)		
Medium (3)		
Low (2)	x	x
Very Low (1)		

Total Risk Score – 4

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No

Risk Owner – Alison Stewart
Paper Author – Ester Vasallo

Action Owner – Ester Vasallo
SMT Owner – Alison Stewart

8. Q3 High Level Forecast Outturn 2022-23
For Discussion

13 June 2023
FINANCE COMMITTEE

1. Purpose

To present to members the Forecast Outturn for Academic Year 2022-23 for discussion.

2. Recommendation

That members discuss the Forecast Outturn for the year to 31 July 2023 and note the changes from Q2 forecast including the remaining risks therein.

3. Background

The main detailed in-year forecasting exercise is carried out at Q2 and was scheduled to be presented to Finance Committee on 21st March, the papers were circulated but the meeting was subsequently cancelled. This High-level Q3 forecast is prepared, looking at key areas and/or known variances since the Q2 forecast, to ensure our financial targets remain in line with expectations.

Appendix one provides a summary of the College's Income & Expenditure account comparing this Q3 forecast with the Q2 forecast. Appendix two summarises the main variances between the 2 forecasts.

Appendix three looks at the Capital budget for Fiscal year 2022-23. The final position to March is fully committed, although all projects were not necessarily complete at that date.

4. Key Considerations

The revenue forecast, as detailed in Appendix 1, is showing an operational surplus of £34k against the Q2 surplus of £53k, which after loan repayments is a deficit of £167k. This does not include the costs of the current VS consultation, which are to be funded from cash reserves, therefore we will be reporting an adjusted operating deficit c£850k.

A potential upside sits within Foundation Apprenticeships credit income. The Q3 income forecast is based on the actual number of credits being delivered, however following the final FES return for the year to be submitted in October, we will provide mitigating circumstances to SFC, arguing for the College to retain the full allocation of £1,096k with no clawback. This would improve the revenue forecast by £231k.

The forecast for the bank balance as at 31 July 2023 is £2.9m, of which c£1.2m is the remaining FVC reserves.

Unresolved issues and areas of risk

The financial operating outturn for the year will depend on the outcome of 2 substantive issues:

- The outcome of pay negotiations with both Unison and EIS
- The final cost of the severance programme.

In addition, it is incumbent on individual departments to spend their allocated budgets in time for the financial year end. Delayed spend cannot be carried forward in to 2023-24 and the finance team has encouraged any essential spending to be undertaken before 31st July to ease pressures on next year. Historically there has been lower spend than forecast, which would improve the operating position for the year.

Overall the forecast adjusted operating position is a small deficit, before severance costs, however between the potential upside from Foundation Apprenticeships and the inevitable underspends of department expense budgets, we are confident that the final operating position will be in surplus.

5. Resource Implications (Financial, People, Estates and Communications)
There are no specific resource implications arising from this paper.

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

7. Communities and Partners
As this is a finance report it does not involve stakeholder groups.

8. Risk and Impact
The score below reflects the financial risk specific to the accuracy of the Q3 forecast. While the current funding environment would indicate a maximum risk score of 25, the only notable concerns within the Q3 forecast arise from the 2 risks identified above which lowers the likelihood of variations. Combined with the commentary above on spending budgets, the likelihood of a negative variation is further reduced.

	Likelihood	**Impact**
Very High (5)		x
High (4)		
Medium (3)	x	
Low (2)		
Very Low (1)		

Total Risk Score – 15

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No

Risk Owner – Alison Stewart
Paper Author – Senga McKerr

Action Owner – Senga McKerr
SMT Owner – Alison Stewart

Forth Valley College

9. Revenue and Capital Budgets 2023-24
For Discussion & Endorsement

13 June 2023
FINANCE COMMITTEE

1. Purpose

To present members with the Revenue and Capital Budgets for 2023-24, for discussion and endorsement to submit this budget to the Board of Management.

2. Recommendations

That members consider the revenue budget for academic year 2023-24 and:

- Discuss the Revenue Budget for 2023-24, including the assumptions being used, and the remaining risks
- Note that the budget is in a surplus operating position, which after loan repayments is a small adjusted surplus of £39k
- Endorse submission of this budget to the Board of Management

That members consider the capital maintenance budget for fiscal year 2023-24 and:

- Note the top-sliced amount of £125k required for the loan interest
- Note the amount of £230k to be allocated to revenue maintenance
- Note the individual capital projects making up the remainder of the allocation, £401k.
- Endorse submission of this budget to the Board of Management

3. Background

This budget is prepared on the basis of the final funding allocations announced by SFC on 25th May combined with the consultation exercise to reduce staffing to c500 FTE for the new academic year. The College sector is working in an austere funding environment, which is likely to continue as flat cash grant in aid funding, for at least the next 2 years. Much of the expenditure at FVC is unavoidable arising directly from our core business and estates portfolio, while staffing costs account for c80% of the total cost base.

The final revenue budget for 2023-24 is an operating surplus of £250k as per Appendix one, which is an adjusted surplus of £39k after providing for the loan repayments. As noted in more detail later in the paper, this surplus could be improved from a potential upside of savings in electricity costs c£200k being realised.

As within any budget, there are certain assumptions and areas of risk to note. The key risks are discussed in section 4 below. The key assumptions and explanations are set out in Appendix two.

Appendix three sets out the capital maintenance budget for fiscal year 2023-24. This SFC allocation is split in to 3 components – loan interest payments, revenue maintenance works and capital projects. The capital projects proposed vastly exceed the £401k of funding available due to the inclusion of the distillation lab delayed from prior year, which can only progress with additional external funding either from Scottish Enterprise or the FVC Foundation.

Appendix four provides some context in regard to the risks that the College faces from the funding environment and numerous cost pressures. The table sets out the financial impact of various scenarios, although some carry higher risk than others.

4. Key Considerations

All of the work over the last few months to address the shortfall in our forecasts for 2023-24, and which informed the consultation exercise, has culminated in a balanced revenue budget.

Property costs are budgeted at £3.1m, and within this is a substantial increase to electricity costs not just from market prices but also due to the implementation of a new charging structure, following a review by Ofgem in to transmission and distribution charges. Although we have included this additional cost in to this budget, we are contesting our capacity banding using an industry specialist PCMG, which if successful, could save up to £200k per annum on our projected bills. PCMG are confident that they can get the changes agreed and realise the savings.

Tight financial control continues to be of paramount importance, given the narrow margin of surplus/deficit the College is annually working within. Difficult decisions on spending may require to be taken later in the year when we look at the Q1 forecast position for 2023-24. The Leadership Management Team will continue to seek ways of increasing income streams and reducing costs, so should finances deteriorate we are confident that there are actions available to us should they be required.

Adjusted Operating Position				
	2023-24 Budget £'000	2022-23 Q3 forecast £'000	2022-23 Q2 forecast £'000	2021-22 Outturn £'000
Total income per I&E	35,874	36,434	36,527	36,659
Total expenditure per I&E	(35,624)	(36,400)	(36,474)	(36,240)
Operating (deficit) surplus	**250**	**34**	**53**	**419**
Revenue funding allocated to loan repayments	(211)	(201)	(201)	(193)
Underlying Core Operating Position	**39**	**(167)**	**(148)**	**226**

Within this budget, there are a number of key risks, resolution of which could significantly impact the final operating position, namely:

- Resolution of negotiations with EIS-FELA and UNISON on the pay awards for September 2022 and September 2023. Every additional 1% costs FVC c£250k.
- [redacted]
- Any likelihood of funding clawback in relation to delivery of Foundation Apprenticeship credits. Our offering for FA programmes is reduced on prior years, and whilst FA credits are not ring-fenced, there is still an expectation by Scottish Government that a certain level of FA activity will take place in the sector. This is deemed low risk at this time.
- The challenge in growing commercial income to replace funding shortfalls should not be underestimated. The projected growth in Modern Apprentices and their required delivery, combined with a lower number of SFC credits needs to be worked through as a whole for the College curriculum.

- Updating the forward forecasts for the following year 2024-25 to determine the likely gap should funding continue to be flat cash, [redacted]

The forecast for the bank balance as at 31 July 2024 is £2.9m, with £1.2m of this being FVC reserves following the costs of the current severance programme, estimated at c£700k, being funded directly from cash reserves.

The Q3 forecast for 2022-23, this budget 2023-24 and two further years forecast for 2024-26 will form the basis of the Full FFR due to SFC by the end of June. A separate paper on the FFR is presented to this meeting of the Finance Committee.

5. Resource Implications (Financial, People, Estates and Communications)

Overall the budgeted adjusted operating position is a manageable deficit, however, the financial impact of the noted key risks could be significant. On the upside, we are hopeful of realising significant savings on the electricity costs as noted above.

The finance team will continue to monitor the budgets closely, and two further year's forecast for 2024-26 have been prepared to assist with medium-term business planning and report to SFC through the annual FFR. Once pay awards are settled it will be sensible to tighten up these forecasts and go beyond. The Finance Committee will be asked about the level of forecasting they would like to see at this time.

6. Equalities

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

7. Communities and Partners

As this is a finance report it does not involve stakeholder groups.

8. Risk and Impact

The current austere funding environment indicates a maximum risk score, as projected future flat cash allocations will result in a lack of financial sustainability within the College sector, leaving FVC with further restructuring and major changes needed to balance budgets.

	Likelihood	**Impact**
Very High (5)	X	X
High (4)		
Medium (3)		
Low (2)		
Very Low (1)		

Total Risk Score – 25

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? Yes, in the current economic environment this risk is higher than we would like, and the matter of funding levels is recorded on the Strategic Risk Register.

Risk Owner – Alison Stewart
Paper Author – Senga McKerr

Action Owner – Senga McKerr
SMT Owner – Alison Stewart

Budget Monitoring 10 Months to 26th May 2023
For Information

13 June 2023
FINANCE COMMITTEE

1. Purpose

To present the budget monitoring for the 10 month period to 26th May 2023.

2. Recommendation

That members note the College performance for the first 10 months of the year, and the reason for this paper being presented for information rather than discussion.

3. Background

The purpose of this report is to provide a summary of the College financial results for the first 10 months of the academic year. As we have recently completed the Q3 forecasting exercise there are few variances to report on, which are not simply due to timing.

4. Key Considerations

Income and Expenditure as set out in Appendix 1

There is an operational surplus for the 10 month period of £588k compared to a forecast deficit of £765k. **Key points to note include:**

Salary Costs
Salary costs are showing a substantial variance as the forecast assumes a pay award of 5% is applied from May, and backdated to September. Negotiations are continuing with the Unions to settle these pay awards. Excluding the pay award the remainder of the variance is minor.

Expenditure underspends to date
Learning and Teaching Materials and Property and FM Costs are showing large underspends to date. The main areas to note are materials and property maintenance. We are continuously liaising with the relevant departments to ensure these budgets are utilised and we have made it clear slippage to the following academic year is not an option.

Balance Sheet as set out in Appendix 2

The Balance Sheet as at 26th May 2023 is attached for information. There are significant movements from 31st July 2022 as we prepare yearend financial statements on a full accruals basis, including yearend adjustments. The presented Balance Sheet at 26th May 2023 does not include these equivalent adjustments.

The forecast cash position for 31st July 2023 is £2.9m, of which c£1.2m is reserves of FVC.

Capital & Revenue Maintenance Budgets

The Capital and Revenue Maintenance budgets from SFC are on a fiscal year basis. There is nothing to report so far for 2023-24 but details of how we plan to utilise our allocation are set out in the Finance Committee paper, Revenue and Capital Budgets for 2023-24.

5. Resource Implications (Financial, People, Estates and Communications)

There are no resource implications from this report.

6. Equalities

As this is a finance report on past performance, an equalities assessment is not applicable.

7. Communities and Partners

Given the nature of this report, it does not involve, or provide benefit to, stakeholder groups.

8. Risk and Impact

There is currently no indication that the College will not meet the Q3 forecast operating surplus position. However, continued monitoring of income and expenses will take place to ensure if this changes the financial impact is highlighted as soon as possible.

	Likelihood	Impact
Very High (5)		
High (4)		x
Medium (3)		
Low (2)	x	
Very Low (1)		

Total Risk Score – 8

BoM Risk Categories & Risk Appetite (Select one area only)					
Cautious <15		**Open 15> <20**		**Eager >20**	
Governance		Strategy		People	
Legal		Financial	x	Project/Programme	
Property		Reputational			
		Technology			

Is the score above the Board Risk Appetite level? No, the score is less than the risk appetite for this category.

Risk Owner – Alison Stewart
Paper Author – Moira France

Action Owner – Senga McKerr
SMT Owner – Alison Stewart

LEVEL OF ASSURANCE
Good

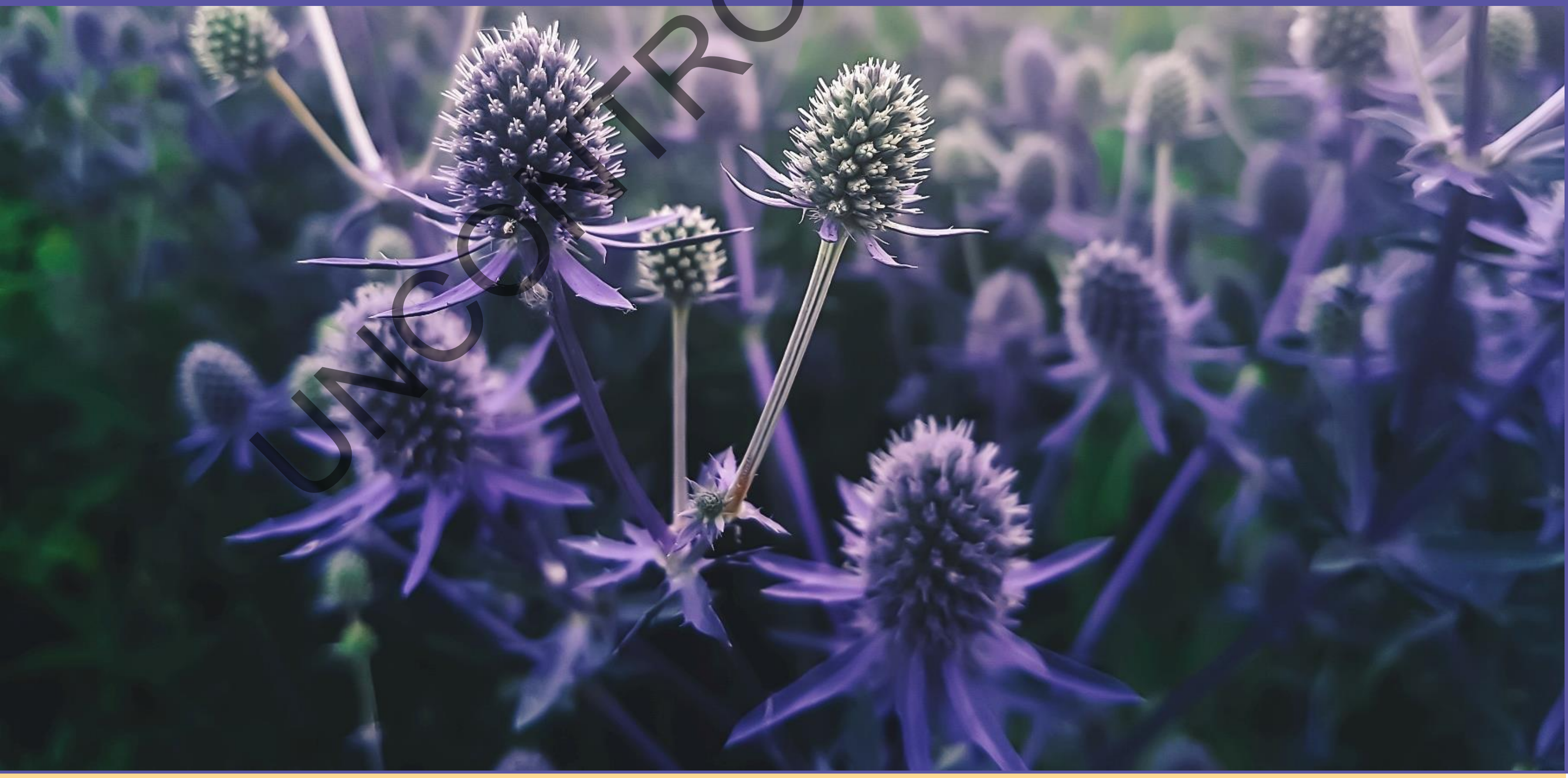
Forth Valley College

Budgetary Control

Internal Audit report No: 2023/08

Draft issued: 4 May 2023

Final issued: 11 May 2023



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Contents

Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Good	System meets control objectives.

Risk Assessment

This review focused on the controls in place to mitigate the following risk on the Forth Valley College ('the College') Risk Register:

- Risk 3 – We are unable to maintain financial sustainability (Risk score 20).

Background

As part of the Internal Audit programme at the College for 2022/23 we carried out a review of the systems in place for budgetary control. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Principal and to the Board that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Budgets are set annually, with the staffing budget quantified centrally based on the staff required to deliver the agreed curriculum, and non-staffing budgets being agreed between Finance staff and budget holders and managers in order to determine an overall budget position. The budget is reviewed by the Leadership Management Team (LMT) and Finance Committee and is then approved by the Board of Management.

The agreed budgets are loaded into the College's finance system, SUN. Budget holders and managers are provided with monthly budget monitoring reports, which are generated from SUN using a report writer tool called Infor10 Q&A. These reports detail actual spend and income against planned expenditure and income, and highlight any variances.

The Finance Manager holds meetings with budget holders and managers during the year to discuss progress and identify reasons for budget variances identified.

Regular reports on year to date budget variances, and the year-end forecast outturn, are provided to the LMT, Finance Committee and the Board.

Scope, Objectives and Overall Findings

This audit looked at the College's budgetary control practices and protocols. It specifically considered budget monitoring procedures in place centrally and within a sample of Academic Departments and Corporate Services, and also cash flow reporting to senior management and the Board, and SFC.

The table below notes each separate objective for this review and records the results:

Objective	Findings				
The objectives of our audit were to ensure that:		**1**	**2**	**3**	**Action already in progress**
		No. of Agreed Actions			
1. Budgets are controlled in accordance with the Financial Regulations and Procedures.	**Satisfactory**	-	-	1	
2. Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved.	**Good**	-	-	1	
3. Information is available to management in Academic Departments and Corporate Services which is up-to-date and in a format that can be easily understood.	**Good**	-	-	-	✓
4. Budget holders have the necessary skills for managing budgets.	**Good**	-	-	1	✓
5. Budget variations are reported and acted upon.	**Good**	-	-	-	
6. There is accurate cash flow reporting.	**Satisfactory**	-	-	-	
7. Senior management and the Board regularly review the College's overall financial position.	**Good**	-	-	-	
Overall Level of Assurance	**Good**	**-**	**-**	**3**	
		System meets control objectives.			

Audit Approach

The Director of Finance, Finance Manager, and a sample of budget holders in Academic Departments and Corporate Services, together with their Operations Managers or other support managers, were interviewed, and reports reviewed, to determine current working practices in budget monitoring, and the information and training provided to budget holders.

The processes used to prepare cash flow reports for senior management, the Board, and the SFC were determined through discussion with Finance staff and review of supporting working papers.

Summary of Main Findings

Strengths

- Financial Regulations are in place covering the Financial Planning and Financial Control processes, and are up to date (last updated in September 2022);
- Detailed Finance department procedures have also been drafted covering the Budget Setting process, In-Year Monitoring and Reforecasting, and Budget Monitoring and Month End processes;
- There is an established budget setting process in place, with a timetable set out to complete and approve the annual budget by June each year;
- There are planned budget reforecasting milestones in place during the financial year to review the budget as the actual financial position becomes clearer;
- Budget reports are provided to budget holders and managers on a monthly basis, to allow responsible budget holders to monitor progress. The budget holders and managers interviewed as part of our audit did not have any issues with the timeliness and format of the financial reports received from Finance, although it was recognised that the current information will be enhanced by the implementation of the Infor Dynamic Enterprise Performance Management (Infor d/EPM) system from August 2023 onwards. This will provide real-time access and allow the facility to drill down to detailed transaction lists and individual invoices;
- The budget holders or managers can request meetings with Finance, or request further information in relation to these budget reports, as and when required. Formal meetings with Finance staff are set on a quarterly basis;
- Some departments also utilised information available from other systems as part of their budget monitoring process. For example the Arlo online booking system for commercial training courses and the Bleep Electronic Point of Sale (EPOS) system for catering;
- All the budget holders and managers interviewed as part of our audit demonstrated that they have the necessary skills required to effectively manage their devolved budgets;
- A key budgetary control is enacted through the purchase order authorisation process, which prevents the raising of orders on the P2P/FIDO system if the remaining funds in the budget line will be exceeded. Where this scenario occurs, this necessitates a discussion with Finance and approval by the Finance Manager prior to committing to the spend; and
- Management Accounts are prepared for the LMT and Finance Committee, as a minimum, on a quarterly basis. Explanations are included within the Management Accounts LMT and Finance Committee covering papers for all variances considered significant. A paper on the forecast outturn is also prepared for the Finance Committee on a quarterly basis.

Opportunities for Improvement

- The College does not have a specific Finance Strategy or Financial Plan document in place and the Financial Forecast Return (FFR) is the main tool utilised by the College for financial planning. The Director of Finance advised that the FFR will be moving from five to two-year forecasts and therefore it will be important for the College to develop separate medium-term financial plans moving forward;
- There is a certain amount of scenario planning and sensitivity analysis undertaken as part of the preparation of the annual budget and FFR. However, this could be further developed to build on the existing work completed. We understand that the implementation of the Infor d/EPM system will make this process more straightforward, as it would no longer be a manual, time consuming, spreadsheet-based process; and
- Although Finance staff do provide training and support to budget holders and managers, including the provision of one-to-one support when requested or required, there is no formal training programme or detailed written procedures in place for the training of budget holders and managers, including those taking on budget holder roles for the first time.

Acknowledgments

We would like to take this opportunity to thank the staff at the College who helped us during the course of our audit visit.

Main Findings and Action Plan

Objective 1 - Budgets are controlled in accordance with the Financial Regulations and Procedures.

Financial Regulations
The College's Financial Regulations (approved September 2022) cover Financial Planning at section 4 and Financial Control at section 5.

4.1 – Introduction
The Vice Principal Finance & Corporate Affairs is responsible for preparing a rolling three-year financial plan for approval by the Board of Management on the recommendation of the Finance Committee and for preparing financial forecasts for submission to the Scottish Funding Council (SFC). Financial plans should be consistent with the strategic plans approved by the Board of Management.

4.2 – Budget Objectives
The Board of Management will, from time to time, propose budget objectives for Forth Valley College. These will help the Vice Principal Finance & Corporate Affairs in preparing the more detailed financial plans for Forth Valley College.

The Board shall plan and conduct its financial and academic affairs so that:

- Its total income is not less than sufficient, taking one financial (31 July) year with another, to meet its total expenditure;
- A reasonable level of net current assets is maintained (excluding deferred capital grant and pension obligations);
- A reasonable level of capital expenditure is made each year so as to maintain the value of the College's fixed assets; and
- It has sufficient financial resources to meet its needs in the form of cash and other liquid assets or borrowing facilities.

4.3 – Budget Preparation
The Vice Principal Finance & Corporate Affairs is responsible for preparing an annual revenue budget and capital programme each year for consideration by the Finance Committee before submission to the Board of Management. The budget should also include a projected year-end balance sheet and cash flow forecasts if appropriate.

The Vice Principal Finance & Corporate Affairs must ensure that detailed budgets are prepared in order to support the resource allocation process and that these are communicated to Directors and Heads of Corporate Service departments as soon as possible following their approval by the Board of Management.

Throughout the year the Vice Principal Finance & Corporate Affairs is responsible for submitting revised financial forecasts to the Finance Committee.

Objective 1 - Budgets are controlled in accordance with the Financial Regulations and Procedures (continued).

5.1 – General

The control of income and expenditure within an agreed budget is the responsibility of the designated budget holder, who must ensure that day-to-day monitoring is undertaken effectively. Budget holders are responsible to their line manager and ultimately their SMT member for the income and expenditure appropriate to their budget.

Significant departures from agreed budgetary targets must be reported immediately to the Director of Finance by the budget holder concerned and, if necessary, corrective action taken. As a minimum, quarterly budget reviews will take place with each budget holder.

5.2 – Financial Information

The budget holders are assisted in their duties by management information provided by the Finance department. The types and frequency of management information available to different levels of management are described in the detailed Budget Monitoring Procedures to reflect the current management needs of the College.

The Vice Principal Finance & Corporate Affairs is responsible for supplying budgetary reports on all aspects of Forth Valley College's finances to the Finance Committee on a basis determined by the Finance Committee but subject to any specific requirements of SFC. The Chair of the Finance Committee will update the Board of Management, which has overall responsibility for College finances.

5.3 – Changes to Approved Budget

The Finance Committee will approve any significant changes to the previously set budget after consideration of updated financial forecasts. Additionally, the Finance Committee must approve moving the adjusted operating position (AOP) from surplus to deficit.

5.4 – Virement

Where a budget holder is responsible for more than one budget, virement is only permitted with the prior approval of the Director of Finance. Virement is only permitted between budget headings (e.g. materials, transport, property costs) within the same budget at reforecast time in discussion with Finance.

Virement between capital and revenue budgets is not generally permitted but in exceptional circumstances may be approved by the Finance Committee, and will also require SFC approval.

Procedures

Detailed procedures have been drafted covering Budget Setting, In-Year Monitoring and Reforecasting, and Budget Monitoring and the Month End process.

Objective 1 - Budgets are controlled in accordance with the Financial Regulations and Procedures (continued).

Discussions with the Director of Finance and Finance Manager, and review of documentation, confirmed that budgets are being controlled in accordance with the Financial Regulations and Procedures although the following points were noted:

- In internal audit report 2020/07 – Financial Planning, issued September 2020, we noted that the College does not have a specific Finance Strategy or Financial Plan document in place and the Financial Forecast Return (FFR) submitted to the SFC is the main tool utilised by the College for financial planning. This continues to be the case; and
- The 2022/23 revenue budget approved by the Board of Management in June 2022 was in deficit of £501k after revenue funding allocated to loan repayments although, once one-off costs funded from prior years surplus were separated out, the Core College position was a small surplus of £44k. In September 2022, as part of the paper requesting the Board to approve the FFR 2022-27, the Board was asked to approve amendments to the 2022/23 budget, incorporating significant known changes since approval in June 2022. SFC had indicated that the surplus in 2021/22 could not be carried forward into 2022/23 and a donation was to be made to the FVC Foundation. The adjusted operating position was a deficit of £1.066m, which effectively arose from a higher pay award and lower levels of student recruitment. This shortfall was to be resolved from in-year savings or additional income, and by Q2 forecast the position was improved by £918k.

Objective 1 - Budgets are controlled in accordance with the Financial Regulations and Procedures (Continued).				
Observation	**Risk**	**Recommendation**	**Management Response**	
The Audit Scotland report *Scotland's Colleges 2022* noted that '*in the context of growing financial challenges and uncertainties, medium-term financial planning based on as much information as possible is more important than ever. In May 2022, the Scottish Government announced its multi-year spending plans up to 2026/27. This shows a flat cash settlement for the SFC over the next four years, equating to an eight per cent reduction in real terms*.' Audit Scotland recognised that '*to support colleges in planning for and implementing proposed changes over the longer term, the Scottish Government and the SFC need to clarify expectations and priorities for the sector for the medium and long term, and the funding available to deliver them*.' (continued)As noted above, the College does not currently have a specific Finance Strategy or Financial Plan document in place, and the FFR is the main tool utilised by the College for financial planning. The FFR is based on assumptions provided to the college sector, which the SFC had instructed must achieve a balanced adjusted operating position, and these assumptions do not align with the College's own assumptions (although for 2022-27 the College also prepared forecasts based on the Finance Directors Network assumptions, with no staff reductions made). The Director of Finance advised that the FFR will be moving from five to two-year forecasts, and therefore it will be important for the College to develop separate medium-term financial plans moving forward.	The College is not financially sustainable in the medium to longer term.	**R1** The College should develop realistic medium-term financial plans and forecasts to supplement the annual FFR and help to identify and mitigate emerging risks to its medium to long term financial sustainability.	The ability to develop sensible medium term plans depends on receiving 3-year funding allocations. SFC has acknowledged that Budget plus one further year is sufficient, and this is expected to be the FFR requirement in June. We will discuss with the Finance Committee members the level of forward planning they would like to see and we will look to develop these plans when we have additional clarity around key assumptions. **To be actioned by:** Director of Finance **No later than:** 30 November 2023	
			Grade	**3**

Objective 2 - Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved.

Strategic and Operational Plans

The College's Strategic Plan covers the period 2022 to 2025 and sets out at a high-level the College's four strategic objectives, including Driving a Sustainable Future. This includes continuing to deliver financial sustainability in a challenging environment and making investment to enhance the student experience. Each department is responsible for preparing its own operational plan, which is linked to the objectives in the College's Strategic Plan. It was established that there is no operational plan timetable demonstrating linkage with the budget setting cycle. The Vice Principal Finance & Corporate Affairs indicated that budgets are prepared first and feed into the operational plans due to the severe budget constraints the College has to work with. As noted below, budget setting is directly linked to the curriculum plans and budget holders we spoke to as part of this audit did confirm that their departments' operational plans were considered during the budget setting process.

Budget Setting

Finance staff calculate the academic salary budgets using the information from the Curriculum Planning System (CPS). This identifies the required teaching hours for the courses planned for the next academic session (taking into account Credits targets). Finance staff review CPS with the Directors of Curriculum. Once the teaching hours are agreed, a full time equivalent (FTE) for lecturers is calculated. This FTE is compared with the current establishment report from HR and will identify if a teaching department requires any Lecturer vacancies or if a teaching department is under deployed. Finance staff review with the Directors of Curriculum their current establishment of Operations Manager, Curriculum Manager and Support posts and note any changes required.

Staffing budgets for Corporate Services staff are calculated by Finance following consultation with the respective Directors and Heads of Service. Each Director / Head receives a note of their current staffing establishment report from HR and discusses with Finance any changes to be made for the following year. This includes the unwinding of any backfill, maternity leave etc to return staff to their substantive posts.

Once all of the FTE figures have been agreed, Finance calculate the salary budget, including any salary increases and on-costs. This is prepared on an individual employee basis to provide the staffing budget at the most granular level and is spreadsheet based using Excel. For other costs such as Evening Hours, Additional Hours, Overtime, etc. these are set with input from the Directors of Curriculum and Operations Managers. Once Finance has completed the Staffing Budget, a copy is sent to the Director of Curriculum or Director / Head of department for review and sign off.

As part of the annual budget setting process, each budget holder is asked to complete a budget submission template which covers all income and non-staff operating expenditure for which the department is responsible. The budget needs to be phased monthly which can be done using prior year information and looking at trends. If there is no other information to show what the pattern of expenditure is likely to be then this is divided equally across the 12 months. Budget review meetings are held by Finance with all budget holders to discuss and review their submitted budget templates in detail.

Objective 2 - Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved (continued).

The Finance department prepares the overall College budget using the following:

- SFC funding allocations;
- Tuition fee schedules for SAAS, evening provision and HEI;
- Flexible Workforce Development Fund spreadsheets;
- Departmental salary budget calculations;
- Departmental operating budget submission templates;
- Depreciation, revaluation reserve and capital grant release calculations;
- Schedules of Foundation Apprenticeship income; and
- Calculations of other income sources by the Finance department.

The staffing budget will at this stage be consolidated with the operational submission for each department. Finance staff review and consolidate the numerous returns. If necessary, follow up meetings with specific budget holders are arranged should any additional information or clarification be required.

The next stage is for Finance staff to prepare a detailed Income & Expenditure report of the draft budget and provide this to the Director of Finance for review, pending a meeting with the Vice Principal Finance & Corporate Affairs to discuss the draft budget position. Following this review, an initial draft budget report is presented to the Leadership Management Team (LMT) for discussion (setting out assumptions used, where relevant based on those agreed by sector Finance Directors) and approval of any amendments, which may be needed to balance the budget position. A second draft is then taken to LMT and once approved the budgets are set and finalised on the finance system.

The detailed report is thereafter presented to the Finance Committee, and subsequently the Board, for approval, normally at their June meetings. For the 2022/23 budget, the report presented in June 2022 noted that SFC had recently provided the financial assumptions for the budget period, but these did not align with the College's own assumptions, as it had been more realistic than just assuming public sector pay increases for 2022/23. As noted under Objective 1, the Core College position originally approved in June 2022 was a small surplus of £44k however this was adjusted in September 2022 to show an operating deficit of £1.066m. This forecast was based on the assumptions agreed by the College sector Finance Directors Network and revised recruitment forecasts for 2022/23.

The budget setting reports to the LMT, Finance Committee and the Board highlight specific risks and the potential financial implications are noted where known, for example relating to pay awards and student recruitment.

The FFR 2022-27 submitted to the SFC in September 2022 was based on the assumptions provided to the college sector, which the SFC had instructed must achieve a balanced adjusted operating position. The commentary to the FFR also showed the 2022-27 forecasts based on the Finance Directors Network assumptions, with no staff reductions made, to highlight the scale of the funding gap which was up to £6.6m per annum by 2026/27. The commentary noted that the LMT would continue to seek ways of increasing income streams and reducing costs and would also scenario plan for longer term solutions.

Objective 2 - Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved (Continued).

The FFR commentary included some sensitivity analysis highlighting that pay awards cost the College £300k for every 1% awarded based on the current on-costs for pension and NIC. Any increase in the pension rates above the current levels adds another £200k.

The LMT also discuss and approve the proposed spend of the College's SFC Capital Maintenance allocation in June each year. This is split between capital and revenue spend.

Reforecasting
The College carries out in-year reforecasting exercises to take account of any significant movements from the original budget approved by the Finance Committee. The major reforecast in the year is completed at the end of December, producing a Q2 forecast budget based on five months actual figures and seven months forecast. In addition, high-level forecasts are prepared at Q1 (to end October) and at Q3 (to end April) to highlight and roll forward more significant variances to date, and any other known adjustments. The In Year Reforecasting Process follows a similar format to budget setting.

Objective 2 - Budget setting is linked to corporate and operational planning processes and budgets are revisited when plans change or funding targets are not achieved (Continued).				
Observation	**Risk**	**Recommendation**	**Management Response**	
As noted above, there is a certain amount of scenario planning and sensitivity analysis undertaken as part of the preparation of the annual budget and FFR. However, there is scope for this to be further developed to build on the work already completed. We understand that the implementation of the Infor Dynamic Enterprise Performance Management (Infor d/EPM) system from August 2023 will make this more straightforward, as it would no longer be a manual, time consuming, spreadsheet-based process.	The College is not financially sustainable in the medium to longer term.	**R2** As part of the preparation of the 2023/24 budget we would advocate the development of further scenario planning and sensitivity analysis to enhance the information provided to the LMT, Finance Committee and Board in the budget setting paper. This would also apply during the reforecasting.	A table of scenarios will be included within the 2023/24 budget paper, focussing on the material areas of staff costs, property costs and all sources of Scottish Government funding. **To be actioned by:** Director of Finance **No later than:** 30 June 2023	
			Grade	**3**

Objective 3 - Information is available to management in Academic Departments and Support Services which is up-to-date and in a format that can be easily understood.

Monthly budget monitoring reports are prepared and uploaded to each departments Microsoft Teams budget monitoring page. The budget holders, the Directors of Curriculum and Heads of Corporate Service departments, are supported in reviewing their budgets by Operations Managers or other support managers. The budget holders or managers can request meetings with Finance or information following up on these reports as and when required. Formal meetings with Finance staff are set on a quarterly basis, October, January and April (coinciding with Q2 & Q3 forecast meetings) and June.

Once all the month end adjustments have been processed in the SUN finance system, reports for the budget holders are prepared through a report writer called Infor10 Q&A, and uploaded to the Teams pages within seven days of the month end.

Budget monitoring reports show:
- Year to Date (YTD) Actual, YTD Budget, Variance;
- Annual budget, Budget remaining;
- Commitments; and
- Previous Year YTD.

The budget holders and managers interviewed as part of our audit did not have any issues with the timeliness and format of the budget monitoring reports received from Finance, although it was recognised that the current information will be enhanced by the implementation of the Infor d/EPM system from August 2023. Infor d/EPM delivers integrated planning, budgeting, forecasting, financial consolidation and scenarios. Departments will have access to real time information on actual spend versus budget and will be able to drill down to detailed transaction lists and individual invoices. Currently, this more detailed information would need to be requested from Finance.

Some departments also utilised information available from other systems as part of their budget monitoring process. The Commercial training team and Apprenticeship team run reports from the Arlo online booking system in relation to commercial training courses, and also an in-house developed Sharepoint system for the Flexible Workforce Development Fund and the Skills Development Scotland (SDS) Funding Information and Processing System (FIPS) for Modern Apprenticeships. The Hospitality Department runs reports from the Bleep Electronic Point of Sale (EPOS) system. In addition to real time monitoring, this allowed a comparison to be carried out with the budget monitoring reports received from Finance to highlight any queries to be followed up with Finance.

In one department reviewed, the Operations Managers advised that they only review the budget monitoring reports quarterly, in advance of the meetings with Finance. Control over the budgets was however maintained through the purchase order authorisation process, and the budget holder retains overall responsibility for review of the monitoring reports.

Objective 4 - Budget holders have the necessary skills for managing budgets.

Discussion with the Finance Manager noted that there is no formal training programme or detailed written procedures for budget holders and Operations Managers or other support managers, however training and support is provided by Finance to new members of staff in those roles. Continuing support is also available through the regular meetings with Finance and in response to any additional request for training and support. A recent example being the new Head of Estates who meets regularly with the Finance Manager to discuss the department's budget and who received training on the P2P / FIDO system etc.

All the budget holders and managers interviewed as part of our audit appeared to have the necessary skills for managing budgets and had received some form of training however one Operations Manager did comment that the training they had received was very informal and that much of their knowledge was picked up from support received from colleagues in the department.

It was highlighted by Finance and budget holders that the new Human Resources and Payroll system currently being implemented would change the process for identifying training needs for each employee / post. The Finance Manager also highlighted that it is intended to provide formal training and written procedures to support the roll out of Infor d/EPM and the procedures are currently being drafted.

Objective 4 - Budget holders have the necessary skills for managing budgets. (Continued)				
Observation	**Risk**	**Recommendation**	**Management Response**	
Although Finance staff do provide training and support to budget holders and managers, including the provision of one-to-one support when requested or required, there is no formal training programme or detailed written procedures in place for budget holders and managers, including those taking on these roles for the first time.	Budget holders and managers are not fully aware of their roles and responsibilities in managing their allocated budgets resulting in budgetary control not being as effective as it could be.	**R3** The College should develop a formal training programme for budget holders, and managers, which they are required to complete before they undertake their budget monitoring role. Detailed written procedures should also be developed.	Once the dEPM system is operational, all existing, and thereafter new budget holders and managers, will be given structured training by the Finance team. **To be actioned by:** Finance Manager **No later than:** 30 September 2023	
			Grade	**3**

Objective 5 - Budget variations are reported and acted upon

As noted under Objectives 1 and 3, above, monitoring reports are provided to budget holders and managers that show variances. From discussions with a range of budget holders and managers we were advised that they identify items for follow-up, or Finance may identify these and raise with budget holders and managers (particularly if these are large amounts). In either case staff advised that they would seek to understand the reason for variances and consider whether specific corrective action is required to be undertaken.

There is a timetable in place for meetings between Finance and budget holders and managers throughout the year, which provides a further mechanism to discuss variances and consider any corrective action required.

A key budgetary control is enacted through the purchase order authorisation process, which prevents the raising of orders on the P2P/FIDO system if the remaining funds in the budget line will be exceeded. Where this scenario occurs, this necessitates a discussion with Finance and approval by the Finance Manager prior to committing to the spend.

Objective 6 - There is accurate cash flow reporting

Consideration of cash balances and cash flows are important to ensure that the College has sufficient funds to fulfil all its financial obligations as they fall due. Each month a monthly Cash Flow Forecast Return is required to be completed and submitted to the SFC by mid-month. This sets out the forecast expenditure for that month, as well as analysing actual expenditure and closing cash balances for the previous months. These are prepared by the Finance Manager who makes various adjustments to the forecast income and expenditure for non-cash items.

The Cash Flow Forecast Return to the SFC is prepared on an August to July, with a split at March basis. We noted that the return to March 2022 forecast a closing cash balance of £3,642,653 for July 2022. The actual closing balance at the end of July 2022 per the audited financial statements was £5,497,031. Management noted that the reason for the variance was that the College made a greater surplus than expected, resulting in a £1.5m donation to the FVC Foundation being made in relation to 2021/22. The most significant variances were in FWDF deferred income, severance pay and student support funding. The donation was not cash settled until September 2022 therefore the July 2022 cash balance was higher than forecast back in March 2022.

Looking at a sample of returns from 2022/23 the variances were as follows:

Month	Forecast	Actual	Difference	Percentage
March 2023	£3,053,275	£3,873,257	£819,982	27%
February 2023	£3,748,275	£3,731,253	£(17,022)	(0.5)%
November 2022	£2,663,971	£2,966,207	£302,236	11%
September 2022	£2,714,852	£2,912,895	£198,043	7%

Although the variance was significant for March 2023 in particular, an explanation was provided by management and this related to timing differences for lifecycle maintenance capital spend and student support fund expenditure.

Overall, we found that there is a reasonable process for cash flow reporting however the accuracy of individual monthly balances is impacted by a range of variables including unforeseen timing differences. Management recognised that as the College's current healthy cash balances reduce there will be a need to review the process and increase the level of sophistication.

Objective 7 - Senior management and the Board regularly review the College's overall financial position.

Management Accounts are prepared for the LMT and Finance Committee on a quarterly basis. Explanations are included within the Management Accounts LMT and Finance Committee covering papers for all variances considered significant. The reports are initially produced by the Finance Manager with support from the Finance team and thereafter reviewed by the Director of Finance
The Management Accounts pack includes an Income & Expenditure account (YTD Actual, YTD Forecast, YTD Variance and Full Year Forecast), Balance Sheet and a report showing spend from the Capital & Revenue maintenance grant.

A paper on the forecast outturn is also prepared for the Finance Committee. The latest was a Q2 Forecast Outturn for 2022/23, which was circulated to the Finance Committee meeting of 28 March 2023. The paper provided:

- a summary of the College's Income & Expenditure account comparing the Q2 forecast for 2022/23 with the final agreed budget for 2022/23;
- an explanation for the main variances from budget to Q2 forecast; and
- a capital budget update.

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