Supplement A

to Circular **01/01**

Notes and Guidance on the Financial Returns 2000/04

Learning+Skills Council

Contents

Section 1: Commentary to support the forecast

Introduction

1 The Learning and Skills Council (the Council, or LSC) asks providers to provide a commentary to support the forecast, in addition to the strategic plan textual update, that brings out the following points:

a. a statement of the key assumptions used in the forecast;

b. the provider's financial objectives as set out in the strategic plan and a commentary on achievement of those objectives within the planning period;

c. the provider's self-assessment of its financial health and an explanation of any variance from the computed financial health group;

d. major movements between forecast periods for income and expenditure account and balance sheet headings;

e. major variances between the latest out-turn estimate for the current year and the original budget;

f. the contribution made by different areas of activity; and

g. the provider's self-assessment of its practices in respect of recommendations contained in the National Audit Office report *Managing Finances in English Further Education Colleges*.

2 A checklist is provided in annex A to this supplement on issues to consider when completing the financial forecasts and monitoring. The checklist is for providers' own use and does not need to be returned to the Council.

Assumptions

3 Suggested forecasting assumptions can be found in annex D to Circular 01/01.

Financial objectives

4 In order to assist the provider in achieving its strategic plan, the governing body should set financial objectives or targets. The purpose of setting such objectives is to establish limits within which the provider should operate. Governors may wish to set targets for aspects such as solvency, reserves and dependency on certain types of income. Examples of financial objectives are included in annex B to this supplement. When the Council reviews providers' financial forecasts it considers whether the targets set by a provider, particularly for solvency, are appropriate. In September 2000, only 75% of providers set such targets.

Sensitivity analysis

5 The information in the financial forecast should reflect the financial effect of the planned levels of activity in a provider's strategic plan. However, these plans are based on assumptions containing some degree of uncertainty. The sensitivity analysis is intended to show the financial implications if more unfavourable conditions apply. Therefore, we ask providers to examine critically the underlying key assumptions and to assess realistically the effect of failure to meet their plans. The provider's sensitivity analysis should be an integral element of the provider's risk management plan.

6 Some forecasting assumptions have critical implications for a provider's strategic plan and the consequences of alternative outcomes can be complex. For example, a major project that would not proceed without Council support could affect a provider's growth or the number of staff employed and lead to a very different outcome from the original financial forecast. **Where a financial forecast contains critical assumptions of this nature, we advise providers to complete a second forecast based on the alternative scenario and share it with the Council.** Where a provider considers that different outcomes have an impact on its financial viability, we consider it essential to produce an alternative financial forecast that reflects the impact of those changes.

7 Providers should identify actions to mitigate the consequences of the identified sensitivities. Providers should notify the appropriate local Learning and Skills Council where these actions mean a rationalisation of provision in any programme area or locality.

8 An example of a sensitivity analysis is set out in annex C to this supplement. To appreciate the implications of sensitivities it is important that they are costed.

9 When reviewing providers' financial forecasts, the Council will consider the adequacy of sensitivity analysis and contingency planning carried out by providers.

10 In September 2000, only 84% of providers had prepared an adequate sensitivity analysis, and only 77% had adequate contingency plans.

Financial health self-assessment

11 Providers are asked to provide a self-assessment of their financial health. The guidance on self-assessment is based upon the following principles:

a. the prime responsibility for a provider's financial health rests with the provider;

b. self-assessment provides the impetus to improve a provider's financial health and is most effective when it is structured, rigorous and continual; and

c. the provider's self-assessment and the Council's assessment of the provider's financial health should focus on the same guidelines, at the forefront of which is the robustness of the provider's finances, in particular its solvency, the likely risks in the provider's environment and the adequacy of the provider's contingency plans.

12 When the Council assesses which financial health group is appropriate for a provider, it considers the guidelines for each group, as set

out below, the provider's self-assessment and a computed health group. The calculations for the computed health group are set out in paragraph 22.

13 The computed health group is shown on form 5 of the financial forecast. Where providers do not feel that this gives a true representation of their financial health, they need to explain the underlying reasons in the commentary.

14 Each provider should insert their own assessment of their health group on form 5, stating which of the following groups most closely identifies with their financial position and supporting the statement by the key analysis and reasons that justify the assessment. Such assessments concentrate on the overall strength of the balance sheet, the cashflow forecast and the likelihood of achieving the provider's projection of income and expenditure. The board of governors should confirm the assessment. The definitions of these groups are guidelines and not criteria.

15 The financial health criteria and automated health scores have been refined to take into account comments made by providers and the need for greater comparability between further education (FE) colleges and other providers. Financial health criteria will be developed further in 2001/02.

Group A

16 Group A comprises providers that appear to have sufficiently robust finances to implement their strategic plan and to deal with the circumstances most likely to occur during the planning period. These providers will normally have:

a. a positive cashflow from operations each year;

b. more than 25 cash days in hand;

c. a current ratio above 1.5:1;

d. a positive balance on their general reserve (income and expenditure account);

e. an operating surplus year on year; and

f. total borrowing less than 50% of their general reserve (income and expenditure account).

17 These providers will also have carried out a rigorous sensitivity analysis and modelled the issues which are most critical to their success. They will also have identified contingency plans to deal with the most adverse variances.

Group B

18 Group B comprises providers that show signs of financial weakness that might limit their ability to implement their strategic plan if they encounter adverse circumstances during the planning period. Providers in this group are likely to have weaker solvency than those in Group A, but should still have:

a. a positive cashflow from operations each year;

b. more than 15 cash days in hand;

c. a current ratio between 1.0:1 and 1.5:1;

d. a positive balance on their general reserve (income and expenditure account);

e. operating position at break even; and

f. total borrowing no greater than their general reserve (income and expenditure account).

19 In addition, this group also covers those providers that may appear to have features similar to those for Group A but whose assumptions appear either overambitious or optimistic. For example, some providers in Group B are planning significant efficiency savings without having robust plans to achieve those savings. Some providers may have included income generation without a supporting business plan. In addition, this group also includes providers that are improving from a Group C position.

Group C

20 Group C comprises providers that are financially weak and that are, or may become, dependent on the goodwill of others. This might involve, for example, a loan from their bank for solvency purposes. Providers in this position are likely to have:

a. a cash outflow from operations in one or more years;

b. less than 15 cash days in hand;

c. net current liabilities (current ratio less than 1.0:1) in one or more years;

d. an accumulated deficit on their general reserve account;

e. an operating deficit; and

f. total borrowing in excess of their general reserve (income and expenditure account).

Computed health group

21 The scoring is based on the following financial ratios:

a. cash generation;

b. cash days;

c. current ratio;

d. general reserves;

e. operating surplus; and

f. total borrowing.

22 These ratios are taken from the forecasts given by the providers and then allocated a score. The sum total of each year of these scores is then weighted in favour of the first two years and the group is allocated depending on the final score achieved. A higher weighting is given to earlier years as they can be forecast with a greater degree of accuracy than later years. The table that follows sets out the limits for the scoring and shows how these are weighted.

Ratio	Provider return	Weighting
Cash generation	> 0.02 => 0.00 < 0.00	6 3 0
Cash days	> 25 > 15 > 0 =< 0	6 3 0 -3
Current ratio	> 1.5 < 1.5 < 1.1 < 1 < 0.5	6 3 0 -50 -100
General reserves	> 5% => 0% < 0% < -5%	6 3 0 -3
Operating surplus	> 3% => 0% < 0%	6 3 0
Total borrowing as a percentage of reserves	< 50% =< 100% > 100%	6 3 0

23 The weightings are totalled for each year. The yearly totals are then themselves weighted on the following basis:

a. first year's totals (x 3);

b. second year's totals (x 2); and

c. third and fourth year's totals (no additional weighting).

24 When the final score is known the group is then allocated.

Score	Group
>168	A
> 84	B
All others	C

25 During the autumn of 2001, the Council will write to college principals indicating whether it agrees with a provider's financial health self-assessment. The Council will explain the reasons for any differences in assessment. Principals should share this letter with the board of governors.

Section 2: Changes to format of the forecast

26 The Council will make the pro forma available on the Council's website (www.lsc.gov.uk) as an Excel workbook. The Council will not send disks to providers, unless specifically requested. A separate application is not needed to access the pro forma.

27 Last year the financial forecast spreadsheet was made available in two formats, an abbreviated version and a full version. This year, owing to the transition of the Further Education Funding Council (FEFC) to the Learning and Skills Council, providers will be required to return the full version of the spreadsheet. In future years a wider range of providers may complete the financial forecast. This would require a significant revision to the pro forma to be carried out.

Form 1 Income

28 Line 3, Training and Enterprise Councils (TEC) income has been removed from 2001/02 onwards to reflect the transfers of TEC funds to the Learning and Skills Council.

29 Line 10, income for payments under section 6 (5) of the *Further and Higher Education Act 1992* has been removed from 2001/02 onwards, to reflect the direct funding of adult and community learning providers under the Learning and Skills Council.

Form 2A Non-pay expenditure

30 Line 11, payments under section 6 (5) *Further and Higher Education Act 1992*, has been removed for 2001/02 onwards to reflect the direct funding of adult and community learning providers under the Council.

Schedule 1A LSC funding allocation

31 New line 7, Overachievement of 16–18 year-olds full-time growth in 2000/01.

32 New line 10, Basic skills learners.

33 New line 16, uplift for specialist providers.

34 Line 20, Main allocation converted to Further Education Funding Council (FEFC) capital grant has been removed from 2001/02 onwards as this is no longer a requirement under the Learning and Skills Council.

Schedule 1B

35 Line 7, Non-schedule 2 fund has been removed from 2001/02 onwards. This is in line with the *Learning and Skills Act 2000*, which has removed the distinction between schedule 2 and non-schedule 2 qualifications.

36 New line 11, centres of vocational excellence. This line has been added so providers can include any Council funding for centres of vocational excellence forecast during the period.

37 New line 14, memorandum line for learner support funds; Access funds. Access funds have been removed from other LSC income and are no longer included in the income and expenditure account. This is in line with the guidance issued in FEFC Circular 00/22, *Sector Accounting Policies*.

Changes to format of the finance record

38 The format used for the December 2001 finance record, as set out in FEFC Circular 00/18, is amended as set out below:

Schedule 1

39 New line 14, memorandum line for learner support funds; Access funds. Access funds are now shown in a separate line to other LSC income and are no longer included in the income and expenditure account. This is in line with guidance issued in FEFC Circular 00/22, *Sector Accounting Policies*.

Schedule 2

40 New schedule 2, expenses. Providers are asked to supply details of senior postholders' emoluments and pay awards, details of provider audit fees and expenditure in respect of overseas activities.

Changes to format of the mid-year update

Form 1

41 Former line 10, income for payments under section 6(5) of the *Further and Higher Education Act 1992*, has been removed. This is to reflect the direct funding of adult and community learning providers under the Learning and Skills Council.

Form 2A

42 Former line 11, payments under section 6(5) of the *Further and Higher Education Act 1992*, has been removed. This is to reflect the direct funding of adult and community learning providers under the Learning and Skills Council.

Schedule 1

43 Former line 7, non-schedule 2 fund, has been removed. This is in line with the *Learning and Skills Act 2000*, which has removed the distinction between schedule 2 and non-schedule 2 qualifications.

44 New line 10, centres of vocational excellence. This line has been added so providers can include any Council funding for centres of excellence forecast during the period.

45 New line 13, memorandum line for learner support funds; Access funds. Access funds have been removed from other LSC income and are no longer included in the income and expenditure account. This is in line with the guidance issued in FEFC Circular 00/22, *Sector Accounting Policies*.

Section 3: Guidance on completing the forecast

Introduction

46 This section provides guidance on accounting policies and on completing the financial forecast schedules and forms. Section 4 of this supplement sets out guidance on completing the financial forecast Excel workbook. Also refer to FEFC Circular 00/22, *Sector Accounting Policies*.

47 Prepare all figures on the accruals basis of accounting unless otherwise stated. Show all income and expenditure as gross figures. Where boxes are shaded on the forms, the software automatically calculates their value.

Financial forecasts

48 The financial forecasts are used for a number of purposes. The Council expects providers to use the forecast for internal planning and monitoring purposes, and reviews each forecast alongside the strategic plan, accommodation strategy and other information. This is to form an opinion on the financial health of the provider and to determine if there are issues to raise with the provider. The Council also considers whether it agrees with the provider's self-assessment of its financial health.

49 The Council aggregates all financial forecasts to give a summarised view of the financial health of the sector. This summary is reported to Council each December and is used to provide a benchmark for providers in the sector. It also provides a basis for advice to the Secretary of State for Education and Skills.

50 It is important that a provider's forecast presents a realistic view of its position so that the Council gets a realistic view of the financial health of the sector. The Council also uses the aggregate data to respond to ad hoc queries from providers and the department.

Details

51 Please enter the provider's details, that is, name, provider code and payment code in the relevant cells on the details worksheet.

Form 1 Income

52 The forecast requires providers to analyse income sources and movements in these income sources. Income is split into Learning and Skills Council, education contracts, tuition fees, other grants, research grants, other income-generating activities, catering and residence, farming and other income to determine the dependency of a provider on particular sources of income.

53 Income from catering, residences, farming activities and other subsidiary activities is compared with the cost to see if these

activities are subsidised or contribute to fixed costs. The contribution is calculated and recorded on schedule 14B.

Line 1, Learning and Skills Council income

54 This will include:

a. allocation, including growth allocation from schedule 1A;

b. other Learning and Skills Council income. This includes income from other initiatives such as summer schools, University for Industry and the further education (FE) standards fund from schedule 1B; and

c. transfer of TEC income. This includes a provider's estimate of income for activities previously funded by Training and Enterprise Councils.

Line 2, release of capital grants

55 This line is calculated automatically by the application from schedule 2 line 5(h). It matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants). This covers capital grants from the Council and other bodies.

56 Treat funds identified for capital purposes as deferred capital grants and credit them to a deferred capital grant account on the balance sheet. Release the allocation to the income and expenditure account in accordance with the *Statement of Standard Accounting Practice (SSAP) 4 Accounting for Government Grants,* to reflect the revenue charges arising from the capital expenditure which the allocation supports. Do this via entries in schedule 2 to the forecast. Funds identified for capital purposes include sums set aside from the provider's main allocation, other capital support, Hunter 1(a) and 1(b) allocations, and retrospective support for capital projects approved by the Department for Education and Employment (DfEE) before 1 April 1993. Also, treat capital payments from other funds as deferred capital grant.

Line 3, education contracts

57 This will include:

a. all local education authority (LEA) income;

b. all income from TECs in 2000/01 including income from youth training (YT), employment training (ET), income from youth credits and trainee allowances (transferred to the Learning and Skills Council from 2001/02 onwards);

c. higher education (HE) income:

- Higher Education Funding Council for England (HEFCE) – include income received direct from the HEFCE for prescribed higher education, including that transferred from the Learning and Skills Council
- income for the provider from higher education institutions for the provision of HE courses;

d. New Deal income; and

e. other – include income for courses run for other authorities such as health authorities, and the Home Office (prison education).

Line 4, tuition fees and charges

58 This will include:

a. EU:

- United Kingdom (UK)
- other EU;

b. non-EU – tuition fees and charges received from learners from outside the EU;

c. HE – tuition fees and charges received for all courses of prescribed HE; and

d. employer-led provision:

- dedicated
- other.

59 To assist the Council to monitor the achievement of targets for employer contributions, we ask providers to record separately tuition fees for employer-led provision and, as a subset of this, fees for dedicated employer provision. Include in these headings the fees associated with learners recorded on the individualised student record in any of the following fields:

a. S16 major source of tuition fees as employer code (3);

b. Q09 major source of tuition fees as employer code (3);

c. Q13 franchised out arrangements codes (22) and (23); and

d. Q35 employer role as employed and released by the employer to study a vocational qualification relevant to that employer (1), attending dedicated employer provision (3).

Line 5, grant income

60 This will include:

a. European funds – revenue grant income from European structural funds. Include the release of European Regional Development Fund (ERDF) capital grants in line 2. Providers receiving funds before incurring the cost relating to the grant will match the income and expenditure in their forecast by crediting current liabilities with the unexpended proportion of the grant

- repayment of funds – this will include repayments of European funding as a negative figure. Disclose the type of European funding, for example European Social Fund (ESF), in the commentary; and

b. other funds – this will include income from the post-16 partnership funds and the skills development fund.

61 Specify the source(s) of the grant income, for example ESF objective 3, in the commentary.

Line 6, research grants and contracts

62 All income in respect of research carried out by the provider.

Line 7, other income-generating activities

63 Income not covered under other headings, in respect of services rendered to outside bodies. This item will cover income from consultancy and any other non-teaching related activity not already separately identified.

Line 8, catering and residences operations

64 Income from catering and residences operations. Enter here surpluses paid to the provider from contracted-out services.

Line 9, farming activities

65 Income from farm operations.

Line 10, income from payments under section 6(5) of the *Further and Higher Education Act 1992* (the Act)

66 Income from adult and community learning provider sponsored by the provider (removed from 2001/02 onwards).

Line 11, miscellaneous income (including investments)

67 This will include:

a. investment income – include income earned on restricted endowments to the extent that the income is spent on capital or revenue items and any other investment income earned. Do not include interest that will be shown at line 13;

b. examination fees – include those for professional examinations; and

c. other income – include all other sources of income not shown elsewhere and income from training restaurants and bars, beauty treatments, learner stationery sales, income from educational visits, value added tax and rates recovered, conference income, nursery, gym, sundry income (eg, library).

Line 12, profits/losses from subsidiary companies not consolidated

68 Agree the accounting treatment of subsidiary companies with the provider's auditors. Note that materiality is not an appropriate reason for non-consolidation of accounts. The profit or loss from any other partnership arrangements should also be included in this line.

Line 13, interest receivable

69 Include interest from all sources.

Line 14, total income

70 Sum of lines 1 to 13.

Line 15, total expenditure – taken from form 2B

Line 16 surplus/(deficit)

71 Total income less total expenditure (line 14 less line 15). Also known as the operating surplus or deficit. This is shown before and after taxation and excluding asset transactions. The taxation charge is recorded on form 2A, non-pay expenditure.

Line 17 surplus/(deficit) on asset disposals

72 This line shows the surplus/(deficit) on assets disposals net of any disposal expenses.

Line 18, surplus/(deficit) including asset transactions (after tax)

73 This line shows the surplus/(deficit) including asset transactions after taxation (line 16(b), surplus/(deficit) after tax plus line 17, surplus/(deficit) on asset disposals).

Appropriation of surplus/(deficit)

Line 19, transfer (to)/from revaluation reserves

74 The sum transferred from the revaluation reserve to the income and expenditure account to balance the depreciation charge on revalued assets and to release from the revaluation reserve any sums related to assets disposed of in the period.

Line 20, historical cost surplus/(deficit)

75 Surplus or deficit in the year after transfer to or from the revaluation reserve (line 18 plus line 19).

Line 21, transfer (to)/from restricted reserves

76 Include any sums brought back from restricted reserves to match specific items of expenditure and all appropriations of income to restricted reserves.

77 All such transfers to or from reserves must be explained in the commentary.

Line 22, transfer (to)/from designated reserves
78 Include sums brought back from designated reserves to match specific items of expenditure and all appropriations of income to designated reserves.

79 Explain all such transfers to or from reserves in the commentary.

Line 23, surplus/(deficit) carried forward to the income and expenditure account
80 This is the sum of lines 20, 21 and 22.

Line 24, balance brought forward on the income and expenditure account
81 The provider's general funds carried over from the previous period as set out in the provider's audited accounts.

Line 25, balance carried forward on the income and expenditure account
82 This is the total of lines 23 and 24.

Form 2A Non-pay expenditure

83 The same breakdown of information is requested for non-pay and pay expenditure using the broad headings of teaching, other support, administration and premises. The analysis assists the Council in responding to queries on teaching costs versus administration costs. We use the analysis to prepare benchmarking data for providers on levels of expenditure. The Council refers to the forecasts when considering provider applications for capital projects, to assess the impact on expenditure and efficiency.

84 Form 2A is for recording non-pay expenditure, including materials, consumables, uncapitalised equipment, stationery, travel and subsistence, postage, telephone charges, books, periodicals, copyright licences, advertising, relocation contributions, consultancy fees, insurance and revenue building works. Include these in the appropriate expense categories below.

Line 1, teaching departments
85 This item will cover all revenue expenditure on teaching and demonstrating such as equipment maintenance, stationery, transport and field trips and open learning costs.

Line 2, learner support services
86 This item will cover the cost of centrally organised services providing teaching support to all learners, including:

a. library – collections of learning-support materials such as books, periodicals, slides and video tapes and including learning support centres if these are organised under the control of the provider library;

b. computer- and resource-based learning centres – the provision of computing facilities for the learner body as a whole. The running costs of administrative computers and charges for the administrative use of a central computer will be shown under line 4 and not here;

c. additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme to help an individual learner complete their learning programme. This could include the cost of a diagnostic assessment, specialist support, transport between provider sites, and materials. Equipment purchases will not be included here;

d. learner guidance on enrolment;

e. learner support;

f. payment to student unions;

g. recreation services such as non-curricular music, drama and sport;

h. medical services;

i. learner services such as careers advisory services, welfare services and specific charges for counselling;

j. learner transport;

k. general support fund payments; and

l. residential bursary payments.

Line 3, other support services

87 This will include:

a. staff training (including costs of seminars);

b. print services;

c. expenditure on facilities such as theatres and galleries, except those run by teaching departments which will be included in line 1;

d. curriculum-development costs; and

e. nursery, work placements.

Line 4, administration and central services

88 This will cover the general running costs of the provider and those specifically charged to central services such as:

a. the revenue costs of administrative computing;

b. bank charges (excluding interest charges that are covered at line 16 below);

c. legal and audit fees;

d. insurance premiums other than buildings insurance that is covered at line 6(a) below;

e. travel and subsistence costs of the principalship and administrative staff;

f. recruitment costs, surveyors' fees, postage, telephones, subscriptions, and payroll services;

g. copyright licence, revenue-running costs of payroll, central licences; and

h. administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.

Line 5, general education expenditure

89 This will include:

a. marketing – overseas learner recruitment costs, publicity and promotion, including course advertising, prospectuses, and market research, except where these are charged directly to provider teaching departments; and

b. examination costs.

Line 6, premises

90 Please show:

a. running costs other than maintenance, for example heating, lighting, cleaning, caretaking, water charges, security, insurance and national non-domestic rates;

b. maintenance – short-term and long-term maintenance costs, for example unblocking drains and repairing breakages; and

c. rents and leases – the cost of acquiring space which is not owned by the provider, including:

- moving costs, refurbishment costs
- minor building improvements and alterations not capitalised.

Line 7, research

91 This will include the costs of research, not administration costs.

Lines 8 to 10, other income-generating activities, catering and residences and farming activities

92 The costs shown under these four headings will be the marginal costs of providing the activities that generate the corresponding streams of income shown in form 1. Where catering services are contracted out, enter any subsidy here. Marginal costs in these cases are defined as the additional costs incurred to secure the income.

Line 11, payments made under section 6(5) of the Act

93 Payments made to adult and community learning providers under the provider's sponsorship agreements. This will equal the income on line 10 of form 1. This line has been removed from 2001/02 onwards to reflect direct funding of adult and community learning providers under the Council.

Line 12, franchising provision costs

94 Include all franchising provision payments other than staff in this heading. Provide an account of significant franchising arrangements in the commentary.

Line 13, miscellaneous

95 This includes costs not shown elsewhere and will include trainee allowance costs where the provider acts as the managing agent. Providers should avoid charging items to this heading wherever possible and need to explain any costs charged here in the commentary. Other expenses to be included:

a. provision for bad debts;

b. costs for training restaurants/hair and beauty salons; and

c. revaluation loss on equipment financed by grant.

Line 14, depreciation

96 These lines are calculated automatically from schedule 5.

Line 15, interest on SSAP 24 provision

97 Interest on SSAP 24 provisions brought forward from schedule 8.

Line 16, other interest payable

98 Include interest on long-term loans, bank overdrafts and local authority deficit loans.

Line 17, taxation

99 Include any taxation charges. Non-recoverable value added taxation charges will be allocated to the appropriate expenditure heading.

Line 18, total non-pay expenditure

100 Sum of lines 1 to 17.

Line 19, premises area (m^2)

101 Please enter the area of the provider's premises in this line. Without this figure the premises cost per m^2 in schedule 14B, line 2(g), cannot be calculated. Incorrect data may result in adverse and mistaken conclusions being drawn in respect of providers' estates utilisation, and may hinder capital consent and support applications being processed.

Form 2B Pay expenditure

102 Pay expenditure will include basic payroll costs, overtime and other allowances and additions, employers' superannuation costs, employers' national insurance contributions, premature retirement costs and redundancy costs.

Line 1, teaching departments

103 Please show:

a. teaching – include the cost of staff who teach on courses where the provider charges full- or partial-cost recovery and on short and special courses. Where the effect is material, apportion the costs of teaching staff who split their time between teaching and other income-generating activity (line 8 below) between line 1(a) and line 8 below. Include any costs of staff cover for teaching staff in this line; and

b. other – include pay for other teaching department staff such as technicians and clerical teaching support staff. Record the costs of departmental staff involved in administrative tasks such as registry, procurement or finance under administration and central services.

Line 2, learner-support services

104 This will include the costs of any staff predominantly employed for:

a. libraries – the cost of all employees, wholly or mainly engaged in library duties or with other learning support centres under the control of the library;

b. computer- and resource-based learning centres – the cost of staff managing and running such centres. The cost of staff engaged in administrative computing work will be shown under line 4;

c. additional support – the cost of staff providing additional support for individual learners over and above the programme activities included in a standard learning programme. This could include literacy or numeracy support, counselling, teachers of the deaf, Braille support and communicators/interpreters;

d. learner guidance on enrolment;

e. learner support, including the cost of administering access funds; and

f. provider nurses, learner welfare officers, recreation tutors, accommodation officers, careers officers and counsellors.

Line 3, other support services

105 This will include:

a. staff training costs – the directly identifiable costs of staff training and development, including the cost of staff tutors and their support staff;

b. print services staff, student union staff (if the student union is not a separate legal entity) and curators;

c. nursery staff; and

d. work placement team reception.

Line 4, administration and central services
106 Include the pay and costs of other emoluments of staff such as the principalship, the directorate and support staff such as the finance staff, personnel staff and administrative staff. It also includes:

a. management information systems (MIS);

b. registry (examinations);

c. computer maintenance/software development;

d. staff involved in fund-raising/community-focused roles;

e. data input staff;

f. TEC and New Deal administration costs;

g. timetabling staff; and

h. quality unit.

Line 5, general education expenditure
107 Include the cost of any staff predominantly employed for:

a. marketing – including learner recruitment, publicity and promotion; and

b. examinations.

Line 6, premises
108 This will include:

a. running costs – the cost of cleaning, caretaking and security staff; and

b. maintenance – the cost of staff engaged on routine and long-term maintenance, including the salaries of health and safety officers.

Line 7, research
109 This will include the pay costs of all staff involved in research. It will not include the costs of staff carrying out administration functions related to research – these will be included in administration and central services.

Lines 8 to 10, other income-generating activities, catering and residences and farming activities
110 Lines 7, 8, 9 and 10 will include all relevant pay-related costs on the same basis as in form 2A, lines 7 to 10. Where teaching staff carry out consultancy contracts, separately identify costs.

Line 11, franchising provision costs
111 Include franchising provision pay costs of the provider's own employees under this heading. Provide an account of significant franchising arrangements in the commentary.

Line 12, miscellaneous
Include any staff costs not included in previous lines. Please provide an analysis of amounts making up this line. If there are any staff costs associated with training restaurants or hair and beauty salons linked to income generation, then they should be included here.

Line 13, contracted tuition services
112 This will include the pay costs of agencies used for providing tuition services.

Line 14, total pay expenditure before restructuring
113 Sum of lines 1 to 13. This line is used in calculating ratios.

Line 15, staff restructuring
114 This will include:

a. initial cost – include all staff-related initial payments in respect of restructuring (redundancy compensation and enhanced lump sum payments); and

b. SSAP 24 provision – this is both the provision for any enhanced pension entitlement given and any provision necessary because of the underfunding of the provider's liability under the Local Government Superannuation Scheme (LGSS). Details of the split of costs under this heading should be given in the commentary.

115 Providers undertaking a staff restructuring scheme, whereby they grant enhanced pensions, will be required to calculate a provision for future pension costs as described in SSAP 24, *Accounting for Pension Costs*. This provision should appear on line 15(b). The provision required is automatically entered for all periods from entries made on schedule 8.

116 Providers should record any payments of enhanced pension costs and the interest payable on the SSAP 24 provision on schedule 8.

117 Guidance on calculating SSAP 24 provisions is contained in FEFC Circular 95/14.

Line 16, total pay expenditure after restructuring
118 Sum of lines 14 and 15(a) and 15(b).

Line 17, total non-pay expenditure
119 Line 17 from form 2A.

Line 18, total expenditure
120 Sum of lines 16 and 17.

Lines 19 and 20, number of staff (excluding contract tuition service staff)
121 Enter the number of teaching (that is, those staff whose costs are included in line 1 (a)) and non-teaching staff (that is, those staff whose costs are included in lines 1(b) to 12 inclusive) in full-time equivalents at lines 19 and 20. It is important that these figures are entered correctly, as without them some key indicators cannot be calculated. Please note that contract tuition staff should be excluded from this line.

Form 3 Balance sheet

122 The majority of the entries in the balance sheet are automatically calculated from the supporting schedules.

Line 1, fixed assets
123 Details of the analysis of fixed assets is given to allow for ease of calculation.

124 Fixed assets include:

a. inherited land and buildings – the value of land and buildings acquired on vesting day;

b. the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation;

c. the value of all other land and buildings valued at cost or subsequent revaluation;

d. the value of equipment acquired on vesting day;

e. the value of equipment acquired post-vesting day, funded by capital grant and valued at cost;

f. the value of all other capitalised equipment valued at cost or subsequent revaluation;

g. investments held as long-term assets valued at the lower of cost or market value;

h. other fixed assets; and

i. total of lines 1(a) to 1(h).

125 For the year ended 31 July 2000 lines 1(a) to 1(h) should be entered manually, using the figures in the provider's audited financial statements for that year.

Line 2, current assets

126 Current assets include:

a. stocks – the value of stocks such as farm stock at the lower of cost or realisable value;

b. debtors;

c. the value of money market investments held as short-term assets valued at the lower of cost or net realisable value;

d. cash and bank balances; and

e. total of lines 2(a) to 2(d).

Line 3, creditors: amounts falling due within one year

127 Creditors: amounts falling due within one year include:

a. overdrafts;

b. other loans falling due for repayment within one year;

c. LEA deficit loan repayable inside one year;

d. trade creditors;

e. amounts due to the inland revenue and pension funds;

f. payments on account and deferred income;

g. all other short-term creditors; and

h. total of lines 3(a) to 3(g).

Line 4, net current assets/(liabilities)

128 Line 2(e) minus line 3(h).

Line 5, total assets less current liabilities

129 Line 1(i) plus line 4.

Line 6, creditors: amounts falling due after one year

130 Creditors: amounts falling due after one year include:

a. loans falling due for repayment after one year;

b. the portion of any LEA deficit loan falling due for repayment after one year;

c. other long-term liabilities; and

d. total of lines 6(a) to 6(c).

Line 7, total provisions, this should include long-term provisions. All entries should be explained in the commentary

Line 8, total assets less liabilities

131 Line 5 minus line 6(d) minus line 7.

Line 9, deferred capital grants

132 This line is commuted from schedule 8.

Line 10, revaluation reserves

133 The amount by which tangible fixed assets were revalued, adjusted for sums released to the income and expenditure account and unrealised gains and losses.

Line 11, restricted reserves

134 The value of funds earmarked for specific purposes that cannot be used at the discretion of the governors for any other purpose, for example charitable bequests.

Line 12, designated reserves

135 The value of funds set aside for specific purposes by the governors, for example for capital purposes.

Line 13, income and expenditure account

136 The accumulated balance on the income and expenditure account.

Line 14, total reserves

137 The sum of lines 10 to 13.

Line 15, total (including deferred capital grants)

138 The sum of lines 9 and 14.

Form 4 Cashflow statement

139 This schedule calculates a cashflow statement, as required by Financial Reporting Standard 1 (FRS1), largely from entries made on other forms and schedules. Providers may need to make some entries on this form.
The entries on this form are:

a. cash is regarded as cash in hand, deposits and overdrafts repayable on demand (under one working day's notice);

b. liquid resources are (readily disposable) current asset investments. They are capable of disposal without disrupting the business and are either traded in an active market or readily convertible into known amounts of cash. Liquid resources include items such as money market deposits, listed investments and local authority bonds;

c. net debt is defined as borrowings under FRS4, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans;

d. an additional section on management of liquid resources is included in the cashflow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments; and

e. the standard requires a separate reconciliation of net cashflow to movement in net debt. This is incorporated as a continuation of form 4.

140 The reconciliation of the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities is automatically calculated and shown on schedule 12.

Line 1 net cash inflow/(outflow) from operating activities

141 Shows the net increase or decrease in cash and cash equivalents resulting from operations shown in the income and expenditure account. This is calculated from the surplus/deficit generated in the period by adjusting for:

a. depreciation;

b. deferred capital grants released to income;

c. profit/loss on disposal of fixed assets;

d. increase/decrease in stocks;

e. interest payable;

f. increase/decrease in debtors;

g. increase/decrease in trade creditors;

h. increase/decrease in tax and pension contributions;

i. increase/decrease in other payments on account;

j. increase/decrease in other liabilities;

k. increase/decrease in provisions; and

l. interest receivable.

142 The software calculates these adjustments automatically and discloses them on schedule 12.

Line 2, returns on investments and servicing of finance

143 Shows the cash inflow/(outflow) in the period through:

a. interest received;

b. interest paid;

c. interest element of finance lease rental payments; and

d. net cash inflow/(outflow) from returns on investment and servicing of finance. The sum of lines 2(a) to 2(c).

Line 3, taxation

144 This line needs to be entered manually where appropriate. Include cashflows to or from taxation authorities in respect of the institution's revenue and capital surpluses. Deal with cashflows in respect of other taxation, including payments and receipts in respect of VAT within operating activities.

Line 4, capital expenditure and financial investment

a. payments to acquire fixed assets – includes all expenditure irrespective of how the acquisition was financed;

b. receipt from the sale of fixed assets;

c. deferred capital grants received – includes all capital grants received in the period, whether from the Council or any other source; and

d. net cash inflow/(outflow) from capital expenditure. The sum of lines 4(a) to 4(c).

Line 5, management of liquid resources

145 Shows the cash inflow/(outflow) in the period from:

a. withdrawals or disposals – this will be positive;

b. deposits or acquisitions – this will be negative; and

c. net cash inflow/(outflow) from management of liquid resources. The sum of lines 5(a) and 5(b).

Line 6, financing
146 Shows the cash inflow/(outflow) in the period from:

a. new secured loans;

b. new unsecured loans;

c. repayments of amounts borrowed – secured and unsecured loans;

d. repayment of the LEA deficit loan;

e. capital element of finances lease rental payments; and

f. net cash inflow/(outflow) from financing. The sum of lines 6(a) to 6(e).

Line 7, increase/(decrease) in cash
147 The sum of lines 1, 2(d), 3, 4(d), 5(c) and 6(f).

Line 8, reconciliation of net cash inflow/(outflow) to movement in net funds/(debt)
148 Shows the change in net debt or net funds during the course of each year:

a. increase/(decrease) in cash. This will equal line 7;

b. cash to repay debt. This will equal the sum of lines 6(c) and (d);

c. cash used to increase liquid resources. This will equal line 5(c);

d. new loans and finance leases. This will equal the sum of schedule 7, lines 1(b)(ii), 1(b)(iii) and 4(b);

e. change in net funds/(debt) is the sum of lines 8(a) to (d);

f. net funds/(debt) at the beginning of the year. This comes from schedule 13, line 7 of the previous year; and

g. net funds/(debt) at the end of the year. This comes from schedule 13, line 7.

149 Please note that line 8(g) will be the sum of lines 8(e) and 8(f).

Form 5 Principal's certificate of reconciliation of movements between years

150 The purpose of this reconciliation is to attribute the movements in each provider's expenditure between years to changes in price and volume. Treat changes in salary costs due to promotions and annual increments as volume variances.

151 Calculate the movement in cost due to volume changes first, attribute the remaining movement to price changes.

152 Measure the changes from 2000/01 to 2001/02 against the column that gives the expenditure for the teaching year 2000/01. Only certain expenditure lines lend themselves to this type of analysis, so exclude movement on the following from the analysis:

a. non-pay expenditure – depreciation, payment under section 6(5) of the 1992 Act, interest on SSAP 24 provision, other interest payable and taxation; and

b. pay expenditure – restructuring costs:

- initial cost
- SSAP 24 provision and contract tuition services.

Non-pay expenditure

Line 1, total non-pay expenditure for previous year
153 For each year this is the total relevant non-pay expenditure for the previous year. For example, in line 1 for 2001/02 this is the sum of lines 1 to 10 plus lines 12 and 13 from form 2A for the year ending 31 July 2001.

Line 2, increase/(decrease) in year attributable to volume changes
154 Show the cost of volume changes planned for each year.

Line 3, increase/(decrease) in year attributable to price changes
155 Include the cost of price changes expected for each year. It is expected that this will equal the inflation rates set out in the commentary. If this is not the case, please explain this in the commentary.

Line 4, total of non-relevant non-pay expenditure in year
156 This is calculated as the sum of form 2A lines 11, 14, 15, 16 and 17.

Line 5, total non-pay expenditure forecast for the year
157 The sum of lines 1 to 4. This figure will be equal to form 2A line 18 for the relevant year.

Line 6, percentage price increase for non-pay expenditure
158 The level of non-pay inflation implied by the figures entered in lines 1 to 5.

Pay expenditure

Line 7, total relevant pay expenditure for previous year
159 This is calculated as the sum of lines 1 to 12 of form 2B.

Line 8, increase/(decrease) in year attributable to volume changes
160 This is the cost of volume changes planned for each year.

Line 9, increase/(decrease) in year attributable to price changes
161 This is the cost of price changes expected for each year.

Line 10, total of non-relevant pay expenditure in year
162 This is calculated as the sum of lines 13, 15(a) and 15(b) from form 2B.

Line 11, total pay expenditure forecast for the year
163 The sum of lines 7 to 10. The sum entered here will equal the amount entered at form 2B line 16 for the relevant year.

Line 12, percentage price increase for pay expenditure
164 The level of pay inflation implied by the figures entered in lines 7 to 11.

Line 13, has the provider revalued its assets since incorporation?
165 This is linked to an error message on form 3. Please enter 'Y' or 'N'.

Line 14, computed health group
166 This line is calculated automatically. Details about how the computed health group is calculated are outlined in paragraphs 20 to 24 of this supplement.

Provider's self-assessment of financial health

167 The Council requests providers to insert their assessment of the most appropriate financial health group for the provider on form 5 (at line 15). Give comments on the provider's decision and any difference from the computed health group in the commentary.

Provider's budget statement

168 The Council requests providers to say whether or not the forecast for 2001/02 is also the budget approved by the corporation for the provider in that year, by entering 'Y' or 'N' in the box provided at line 16. If the forecast is not the budget for 2001/02, then state the reasons in the commentary.

Provider's risk management plan

169 Confirm the board of governors approval of the risk management plan by entering 'Y' or 'N' in the box provided at line 17.

Principal's certificate

170 The principal signs form 5 to indicate that the forecast is complete and that the key ratios have been reviewed by the governing body. If any part of this form is incomplete, or not completed correctly, a message is printed where the principal signs, stating that the form has not been fully completed.

171 All forms produced by the application have the time and date printed at the foot of the page. The time and date on form 5 will be the same as the time and date on all other forms and schedules returned to the Council. The Council will ask providers for another signed copy of their forecast if this is not the case.

Schedule 1A Learning and Skills Council Funding Allocation

Purpose of schedule

172 This schedule is used to:

a. estimate target units;

b. estimate the forecast funding allocation to be included in form 1; and

c. estimate the average level of funding (ALF) for each unit.

Completion of schedule

173 This schedule has been amended to cater for revisions to the funding allocation. Providers should enter their 2000/01 allocation in pounds (£000s) and units (000s) in lines 1 and 2 for 2000/01 (boxes f and g, respectively in the provisional funding allocation).

Total allocation

174 The number of units at line 1 for the previous year is rolled forward to line 3 of the following year.

175 Providers should enter adjustments to the baseline at line 4. This includes additional units for widening participation (box (j) in the provisional funding allocation).

176 The base allocation at line 6 is calculated from the unit allocation for the previous year, the input adjustment units and the input ALF for the year.

Growth funding

177 Providers should enter units associated with overachievement of 16–18 full-time (FT) growth in 2000/01 in line 7 (box (r) in the provisional funding allocation). Allocations for growth in 2001/02 for 16–18 year-old FT learner units and adult and part-time 16–18 learner units should be entered in lines 8 and 9, respectively (boxes (t) and (v), respectively in the provisional funding allocation). Enter any assumed further growth allocation in subsequent years in lines 8 and 9. The model assumes consolidation of the previous year's growth.

178 Line 10 will include units for basic skills learners (box (x) in the provisional funding allocation).

179 Line 11 will include units for curriculum 2000 (box (z) in the provisional funding allocation).

180 Line 12 will include units for University for Industry (UFI) (not included in the provisional funding allocation). Funds will be separately identified in final allocations for 2001/02. Providers may wish to refer to FEFC Circular 01/05, *Guidance on Funding Allocations 2001/02*, for further information on the method of allocating UFI funding.

181 Line 13 should include any additional units assumed for growth in other areas of activity.

182 Please note lines 7 to 13 on schedule 1A increase the baseline allocation for the following year.

183 Line 14, shows the total growth funding.

Area weighting factor

184 Enter the appropriate area weighting factor at line 15 for 2000/01 and subsequent years.

Uplift for specialist providers

185 Enter the appropriate uplift for specialist providers at line 16 for 2000/01 and subsequent years.

Average level of funding

186 Enter the provider's assumption for the ALF at line 17.

Revenue allocation

187 Enter any anticipated recovery of funds for previous years at line 18.

188 Where a provider has received additional units that will not be consolidated into the baseline for future years, enter these at line 19, additional in-year allocation, which is split between (a) number of units and (b) funding. The model does not assume consolidation of previous year's growth.

Main allocation converted to capital grant

189 Line 20, Main allocation converted to FEFC capital grant, is included in 2000/01 only. This has been removed from 2001/02 onwards as it is no longer a requirement under the Learning and Skills Council.

Memorandum lines

190 Lines 22 and 23 are memorandum lines. Line 22, forecast learner full-time equivalents

(FTEs) is split between (a) 16–18 full-time and (b) other. Line 23 is franchised provision in units.

191 The Council publication *Full-time Equivalent Student Numbers in Further Education in 1997–98* sets out the methodology and explanation of how to calculate learner full-time equivalents. This publication is available on the FEFC website under data/analysis and benchmarking/student statistics/full-time equivalent student numbers in 1997/98. For the purposes of the September 2001 financial return, providers should use the 1999/2000 sector average divisor of 650.

Schedule 1B Other Learning and Skills Council income

Purpose of schedule

192. This schedule is used to estimate the amount of other income received from the Council and is split into revenue and capital income. The total revenue income received is carried forward to form 1 line 1(b).

Completion of the schedule

193 This schedule is included to show the breakdown of other Learning and Skills Council income as shown in form 1 line 1(b) of the forecast.

Line 1, learner support funds
194 This is estimated income expected to be received from additional childcare support funds and residential bursaries.

Line 2, ethnic minority student achievement grant (section 11)
195 This is income received for projects previously carried out under section 11 of the *Local Government Act 1966*.

Line 3, basic skills school
196 This is additional income expected for basic skills provision.

Line 4, individual learning accounts
197 This is income received for individual learning accounts.

Line 5, rationalisation fund
198 This is income revenue expected as a result of rationalisation. Further details regarding this fund are in FEFC Circular 99/15.

Line 6, FE standards fund
199 This is income expected to be received from the FE standards fund.

Line 7, non-schedule 2 fund
200 This is income expected from non-schedule 2 projects in 2000/01. This income is excluded from 2001/02 onwards in line with the *Learning and Skills Act 2000*, which has removed the distinction between schedule 2 and non-schedule 2 qualifications.

Line 8, widening participation strategic partnerships
201 This is income expected from these partnerships.

Line 9, the inclusive learning quality initiative
202 This is income expected from inclusive learning partnerships. Further details regarding this fund are in FEFC Circular 99/05.

Line 10, University for Industry projects
203 This is income expected for University for Industry projects separate from that included at schedule 1A.

Line 11, centres of vocational excellence
204 This is income relating to the funding of centres of vocational excellence. Further details regarding this fund can be found in annex D to this circular.

Line 12, other Learning and Skills Council income
205 This is all other Learning and Skills Council revenue income not included in the categories above.

Line 13, total
206 The sum of lines 1 to 11.

Memorandum line for learner support funds

Line 14, Learner support funds; Access funds
207 Include access funds here. Access funds have been removed from other LSC income and are no longer included in the income and expenditure account. This is in line with the guidance issued in FEFC Circular 00/22, *Sector Accounting Policies*.

Memorandum table for new capital grant expected cashflows

208 Include the expected cashflows from these initiatives in this table. This helps the Council in its planning. Providers should account for these grants on schedule 2 as for other capital grants.

Line 15, childcare places (learner support fund)
209 This is income expected from the childcare places fund.

Line 16, rationalisation fund (capital element)
210 This is the estimated capital grants to be received from rationalisation. Further details regarding this fund are in FEFC Circular 99/15.

Line 17, income to support financing of major works
211 This is the estimated income to support the financing of major works.

Line 18, IT infrastructure
212 This is the estimated income to support the financing of information technology for learners.

Line 19, other Learning and Skills Council capital grants
213 This is any other capital grant income from the Learning and Skills Council.

Line 20, total
214 The sum of lines 14 to 18.

Line 21, provider spend on Information Learning Technology (ILT)
215 Providers are asked to identify funds (capital and revenue converted to capital), from any source, expended on information learning technology. Information learning technology (ILT) activities can be categorised as follows:

a. hardware;

b. communications;

c. learning materials; and

d. training and staff development.

216 Line 22, total provider spend on ILT.

Schedule 2 Funds for capital purposes

Purpose of schedule

217 This schedule is used to:

a. record the amount of capital grants received by providers;

b. ascertain the nature of expenditure made from capital grants received by providers; and

c. calculate the release of capital grants to income and expenditure account.

Completion of schedule

218 Capital grants are categorised into four types:

a. For 2000/01 only, Council funds for capital purposes expended on equipment;

b. major capital works grant received from the Council;

c. Council funds for capital purposes expended on land and buildings; and

d. other capital grants.

219 For 2000/01 only, the amount entered for category (a) must correspond to that entered in line 20 of schedule 1A, Learning and Skills Council funding allocation. Where this corresponding entry is not made, the cashflow forecast will not balance.

220 Providers need to analyse:

a. how capital grants received, or main allocation used for capital purposes was spent;

b. any grants estimated to be unspent at the end of a period;

c. grants spent in advance of receipt at the end of a period;

d. any grants received in a prior period spent in the current period; and

e. any grants spent in current period forecast to be received in a future period.

The details are necessary to calculate the release of capital grant and produce the cashflow statement.

221 For Council funds for capital purposes expended on equipment, enter:

a. in line 1(b) any revenue expenditure made on equipment from the grant, even if the expenditure is made before the grant is received;

b. in line 1(c) any grant received in the accounting period that is unspent at the end of that accounting period;

c. in line 1(d) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

d. in line 1(e) any grants received in a previous period but not spent until the current period, that is, the expenditure is included in 1(a) or 1(b) above in the current period; and

e. in line 1(f) any grants spent in a previous period but not received until the current period, that is, the expenditure is included in 1(a) or 1(b) above in the previous period.

222 Line 1(g) is automatically calculated. Please check that this equals the total capital equipment grant received in each period.

223 Providers that benefit from major capital works grant should enter:

a. in line 2(a) any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 2(b) any revenue expenditure made on land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 2(c) any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

d. in line 2(d) any revenue expenditure made on equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

e. in line 2(e) any grant received in the accounting period that is unspent at the end of that accounting period;

f. in line 2(f) any expenditure made either on revenue or on fixed assets from grants due to be received but not yet received;

g. in line 2(g) any grants received in a previous period but not spent until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the current period;

h. in line 2(h) any grants spent in a previous period but not received until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the previous period;

i. in line 2(i) any capital element of retrospective Council assistance in the year in which the grant is received; and

j. in line 2(j) any revenue element of retrospective Council assistance in the year in which the grant is received.

224 Only a few providers will need to complete the above part and most of these only need to complete lines 2(a), 2(b), 2(c) and 2(d).

225 Line 2(j) will include, for the year in which the retrospective grant is received, a proportion of the cumulative depreciation-to-date charged to income and expenditure against the asset for which assistance was awarded. The proportion of the total depreciation charge entered will correspond to the proportion of support for the total project cost agreed by the Council. Transfer the amount of Council assistance allocated to revenue expenditure for cumulative depreciation to the income and expenditure account, form 1 line 2, release of capital grants, in the year of receipt.

226 Line 2(k) is automatically calculated. Please check that this equals the total major capital works grant received in each period.

227 For Council funds for capital purposes expended on land and buildings, enter:

a. in line 3(a) any expenditure made on fixed asset land and buildings for maintenance work or from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 3(b) any revenue expenditure made on land and buildings for maintenance work or from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 3(c) any grant received in the accounting period which is unspent at the end of that accounting period – payment on account;

d. in line 3(d) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

e. in line 3(e) any grants received in a prior period but not spent until the current period, that is, the expenditure is included in 3(a) or 3(b) above in the current period; and

f. in line 3(f) any grants spent in a prior period but not received until the current period, that is, the expenditure is included in 3(a) or 3(b) above in a previous period.

228 Line 3(g) is automatically calculated. Please check that this equals total minor capital works grant received in each period.

229 If the provider benefits from any other capital grants, for example, ERDF, enter:

a. in line 4(a) any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 4(b) any revenue expenditure made on land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 4(c) any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

d. in line 4(d) any revenue expenditure made on equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

e. in line 4(e) any grant received in the accounting period that is unspent at the end of that accounting period;

f. in line 4(f) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

g. in line 4(g) any grants received in a prior period but not spent until the current period, that is, the expenditure is included in 4(a), 4(b), 4(c) or 4(d) above in the current period; and

h. in line 4(h) any grants spent in a prior period but not received until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the prior period. (For many providers this section is not applicable.)

230 Line 4(i) is automatically calculated. Please check that this equals the total of other capital grants received in each period.

231 Release of capital grants, section 5 (lines a to h), is automatically calculated from entries made on this schedule, schedule 3, disposal of fixed assets, and schedule 5, fixed asset depreciation.

Treatment of Council support for a project

232 Council support for capital projects is now granted as:

a. continued loan support arrangements;

b. lump sum commutation of loan support; and

c. lump sum grant over three years.

Loan support

233 Providers in receipt of loan support will continue to account for it as previously.

234 For the first year only, the loan support is shown as major capital works grant in lines 2(a) and 2(b) of schedule 2, capital grants – capital element in line 2(a) and revenue element in line 2(b). For the first year only, the total cost of the project, net of the first year's capital element, is shown as other land and buildings additions.

235 In subsequent years, the Council support is shown as retrospective Council assistance in lines 2(i) and 2(j) of schedule 2, split appropriately between capital and revenue. The software makes all further adjustments automatically.

Commuted support

236 For planning purposes providers should assume commuted support will be paid over three years in three equal instalments. In year 1 show the lump sum commuted support as retrospective Council assistance (line 2(i) of schedule 2) with the commuted support to be received in years 2 and 3 shown as a Council debtor (line 2(f) of schedule 2). The actual commuted support received in years 2 and 3 should be included in line 2 (h) of schedule 2.

Example – commuted support

237 A provider receives a lump sum payment of £300,000 (commuted capital support) to be paid over three years in three equal instalments as follows:

Year 1 – year ending 31 July 2001	£100,000
Year 2 – year ending 31 July 2002	£100,000
Year 3 – year ending 31 July 2003	£100,000

238 The receipts should be input in the financial forecast workbook as follows below:

Schedule 2. Funds for capital purposes

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 2(f), grants claimed and spent but not rec'd (Council debtor)	200		
Line 2(h), grants expended in prior year rec'd in current year		100	100
Line 2(i), capital element of retrospective Council assistance	300		

239 The following entries are automatically calculated via the schedules:

Schedule 4. Fixed asset additions

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(a), total additions cash purchases	300		
Line 2(c), total additions (net of retrospective grants received)	(300)		

Schedule 6. Debtors

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 2, Council capital grants	200	100	

Schedule 8. Provisions

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(a) balance b/fwd		300	300
Line 1(b) capital grants rec'd	100	100	100
Line 1(c) capital grant debtors	200		
Line 1(h) balance c/fwd	300	300	300

Form 3. Balance sheet

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(b), land and building financed by capital grant	300	300	300
Line 1(c), other land and buildings	(300)	(300)	(300)
Line 2(b), debtors	200	100	
Line 2(d), cash (manual entry)	100	200	300
Line 9, deferred capital grant	300	300	300

Form 4. Cashflow statement

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 4(c) deferred capital grants rec'd	100	100	100
Line 7 increase/(decrease) in cash	100	100	100
Line 8(g) net funds/(debt) at end of year	100	200	300

The £100,000 is also automatically input at lines 4(d), 8(a), 8(e) and 8(f).

Capital grant

240 For the first year show the grant received in year as major capital works grant in lines 2(a) and 2(b) of schedule 2. Record the total cost of the project, net of grant in other land and building additions (schedule 4 line 2(a)). In years 2 and 3 enter grants claimed and spent but not received in schedule 2 line 2(f) and enter any grants expended in the prior year but received in the current year in schedule 2 line 2(h).

Example – capital grant

241 A provider has a capital project approved by the Council with capital support of 35% on its eligible project cost of £1 million. The capital support of 35% (£350,000) will be paid by the Council over three years on support of evidence from the provider that the expenditure has been made. The maximum that the provider can claim will be as follows:

Year		%	£
1	2000/01	10.0	100,000
2	2001/02	12.5	125,000
3	2002/03	12.5	125,000
Total		**35.0**	**350,000**

242 The capital project eventually costs the provider the estimated £1 million to be built. However, the building costs are spread evenly over two years as follows:

Year		Project costs £	%	Capital grant £
1	2000/01	500,000	35.0	175,000
2	2001/02	500,000	35.0	175,000
Total			**35.0**	**350,000**

243 The transactions should be recorded as follows:

Schedule 2. Funds for capital purposes

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 2(a), expenditure	175	175	
Line 2(f), claimed and spent but not received	75	125	
Line 2(h), grants expended in prior year received in current year	75	125	
Line 2(k), total	100	125	125

244 The following entries are automatically input via the schedules:

Schedule 4. Fixed asset additions

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(a) total additions – cash	175	175	
Line 2(a) additions – cash purchases	325	325	

Schedule 6. Debtors

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 2, Council capital grants	75	125	

Schedule 8. Provisions

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(a) balance b/fwd		175	350
Line 1(b) capital grants received	100	125	125
Line 1(c) capital grant debtors	75	125	
Line 1(e) grants expended in prior year received in current year		75	125
Line 1(h) balance c/fwd	175	350	350

Form 3. Balance sheet

245 The majority of the entries on form 3 and form 4 are calculated automatically via the schedules.

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 1(b) L&B financed by capital grant	175	350	350
Line 1(c) other L&B	325	650	650
Line 2(b) debtors	75	125	
Line 2(d) cash (manual entry)	(400)	(775)	(650)
Line 9, deferred capital grants	175	350	350

Form 4. Cashflow statement

	2000/01 £000s	2001/02 £000s	2002/03 £000s
Line 4(a) payments to acquire fixed assets	(500)	(500)	
Line 4(c) deferred capital grants rec'd	100	125	125
Line 4(d) net cash inflow/(outflow) from capital expenditure	(400)	(375)	125
Line 7 increase/(decrease) in cash	(400)	(375)	125
Line 8(e) change in net funds/(debt)	(400)	(375)	125
Line 8(f) net funds/(debt) at beginning of year	0	(400)	(775)
Line 8(g) net funds/(debt) at end of year	(400)	(775)	(650)

Schedule 3 Disposal of fixed assets

Purpose of schedule

246 This schedule:

a. records the sales proceeds received from disposal of fixed assets;

b. records the initial cost or valuation of the fixed assets which were sold; and

c. records the accumulated depreciation at the date of disposal of assets.

Completion of schedule

247 For the 12-month accounting period to 31 July 2001 and three forecast years to 31 July 2002, 31 July 2003 and 31 July 2004 providers enter, for each category of fixed asset:

a. the sale proceeds received from disposal of fixed assets in lines 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), 7(a) and 8(a);

b. the valuation of inherited fixed assets disposed of in lines 1(b) and 4(b);

c. the initial cost or subsequent valuation of those fixed assets disposed of which were acquired after 1 April 1993 in lines 2(b), 3(b), 5(b), 6(b), 7(b) and 8(b); and

d. the accumulated depreciation at date of disposal of assets in lines 1(c), 2(c), 3(c), 4(c), 5(c), 6(c) and 8(c).

248 Information entered onto this schedule is used in:

a. form 3 balance sheet, lines 1(a) to 1(h), to calculate fixed asset values;

b. form 4 cashflow, line 4(b), to calculate cash received from the sale of fixed assets;

c. schedule 2 capital grants, line 5(g), release of capital grants on assets disposed;

d. schedule 11 revaluation reserve, line 8, transfer to income account in the current period – net book value of disposed inherited fixed assets; and

e. schedule 12 cashflow reconciliation, line 4, profit/(loss) on disposal of fixed assets.

249 Providers are reminded that any surplus or deficit on disposals of fixed assets should be recorded on form 1, line 17.

Example

250 During 2000/01, a provider sells inherited land and buildings for £50,000. At 1 April 1993 these assets were valued at £45,000 and at the date of disposal were depreciated by £5,000. During 2001/02, equipment financed by capital grant is scrapped (nil sales proceeds). The equipment had initially cost £10,000 and had been depreciated by £7,000.

Extract from schedule 3 following entry of these transactions:

	Year ended 31 Jul 2001 £000	Year ended 31 Jul 2002 £000
Inherited land and buildings		
Sale proceeds	50	–
Valuation at 1 April 1993	45	–
c. Accumulated depreciation at date of disposal	5	–
5 Equipment financed by capital grant		
a. Sale proceeds	–	0
b. Cost or valuation	–	10
c. Accumulated depreciation at date of disposal	–	7

At form 1, line 17, a surplus on disposal of fixed assets of £10,000 would be recorded in 2000/01 and a loss of £3,000 would be recorded in 2001/02.

Schedule 4 Fixed asset additions

Purpose of schedule

251 This schedule is used to:

a. record additions to fixed assets purchased from cash; and

b. record additions to fixed assets financed by finance leases.

Completion of schedule

252 For the 12-month accounting period to 31 July 2001 and three forecast years to 31 July 2002, 31 July 2003 and 31 July 2004 providers should enter:

a. additions to other land and buildings, other equipment, investments and other assets purchased from cash in lines 2(a), 4(a), 5(a) and 6(a); and

b. additions to other land and buildings, other equipment, investments and other assets financed by finance leases in lines 2(b), 4(b) and 6(b).

253 Additions to assets financed by capital grants are automatically calculated from entries made on schedule 2 lines 1(a), 2(a), 2(c), 2(i), 3(a), 4(a) and 4(c). Inherited fixed assets cannot be added to.

254 If retrospective Council assistance is received for a capital project for the period in which the retrospective grant is received, the figure for 2(c), total additions, will be quoted net of retrospective capital grant.

Example

255 During 2000/01, a provider purchases equipment (categorised as other equipment) for £20,000. This purchase is made using a finance lease. During 2001/02 other fixed assets are purchased from cash at a cost of £30,000.

Extract from schedule 4 following entry of these data

	Year ended 31 Jul 2001 £000	Year ended 31 Jul 2002 £000
4 Other equipment		
a. Additions – cash purchases	–	–
b. Additions – financed by finance leases	20	–
c. Total additions	20	–
6 Other		
a. Additions – cash purchases	–	30
b. Additions – financed by finance leases	–	–
c. Total additions	–	30

256 Providers may use the capital allocation for the capital and interest element of new finance leases. The sum charged to the Council's capital allocation should not exceed the actual sum paid to the finance house. (It is feasible under some methods of allocating interest charges for the life of the lease that the combined depreciation and interest charges may exceed the sum paid in early years.) The grant received in any year will be set against the lease payment for that year. Grant may not be set aside to meet future years' lease payments. Any assets acquired under finance leases met by Council grants should be treated as Council-funded assets.

Schedule 5 Fixed asset depreciation

Purpose of schedule

257 This schedule is used to record depreciation provided on all categories of fixed asset, including depreciation on revalued assets.

Completion of schedule

258 Providers are required to enter a depreciation provision, based on cost or the revalued amount, for each category of fixed asset in all accounting periods. Totals are calculated for depreciation on inherited assets, on assets funded by deferred capital grants and other assets.

259 Information entered onto this schedule is used in:

a. form 3 balance sheet, lines 1(a) to 1(h), to calculate the net value of fixed assets;

b. form 2A non-pay expenditure, line 14, depreciation;

c. schedule 2 capital grants, lines 5(a) and 5(b), release of capital grants depreciation on assets funded by capital grants;

d. schedule 11 revaluation reserve, line 7, transfer to income and expenditure account depreciation on inherited fixed assets for revalued amount, line 30, transfer to income and expenditure account depreciation on other fixed assets for revalued amount; and

e. schedule 12 cashflow reconciliation, line 2, depreciation.

Schedule 6 Debtors

Purpose of schedule

260 This schedule is used to record and analyse debtors in a way that assists the production of the cashflow statement.

261 Line 1 includes Learning and Skills Council recurrent funding.

262 Line 2, Learning and Skills Council capital grants, and line 3, other capital grants, are automatically calculated from entries made on schedule 2, capital grants lines 1(d), 2(f), 3(d) and 4(f) for each of the accounting periods after 31 July 2000.

Schedule 7 Creditors

Purpose of schedule

263 This schedule is used to record and analyse creditors.

264 Enter bank overdrafts at line 1(a).

265 For loans enter:

a. in line 1(b)(i) in 31 July 2000 column any balance outstanding on loans at that date;

b. in line 1(b)(ii) any new secured loans taken out in the period;

c. in line 1(b)(iii) any new unsecured loans taken out in the period; and

d. in line 1(b)(iv) any repayment of loan capital made in the period.

266 Line 1(b)(v) total loans is automatically calculated.

267 To comply with standard accounting practice providers should analyse the total loans outstanding at line 1(b)(v) between those repayments falling due within one year and those falling due after more than one year. The analysis should be entered at lines 1(b)(vi) and 1(b)(vii). A total is automatically calculated at line 1(b)(viii).

268 Lines 1(b)(v) and 1(b)(viii) should be equal.

269 For LEA deficit loan, enter:

a. in line 2(a) in 31 July 2000 column any balance outstanding on LEA loan deficit at that date; and

b. in line 2(b) any repayment of loan capital made in the period.

270 Line 2(c) total LEA deficit loan is automatically calculated.

271 Providers should analyse the total LEA deficit loan outstanding at line 2(c) between those repayments falling due within one year and those falling due after more than one year. The analysis should be entered at lines 2(d) and 2(e). A total is automatically calculated at line 2(f). Lines 2(c) and 2(f) should be equal.

272 For payments on account:

a. enter in line 3(a) in 31 July 2000 column any capital grants payments on account;

b. enter in line 3(b) any other payments on account; and

c. line 3(c) total payments on account is automatically calculated.

273 For finance leases:

a. enter in line 4(a) in 31 July 2000 column any balance outstanding on finance leases at that date;

b. enter in line 4(b) any new finance leases taken out in the period;

c. enter in line 4(c) the capital element of any finance lease payments made in the period; and

d. a total is automatically calculated at line 4(d).

274 Providers should analyse lease payments falling due within one year at line 4(e) and those falling due after more than one year at line 4(f). A total is automatically calculated at line 4(g). Lines 4(d) and 4(g) should be equal.

275 For other liabilities enter:

a. in line 5(a) any recovery of Council funds relating to the period;

b. in line 5(b) any interest payable at 31 July unpaid at that date; and

c. in line 5(c) any other liabilities.

276 Line 5(d) total other liabilities is automatically calculated.

277 Providers should analyse the total other liabilities outstanding at line 5(d) between those repayments falling due within one year and those falling due after more than one year. The analysis should be entered at lines 5(e) and 5(f). A total is automatically calculated at line 5(g). Lines 5(d) and 5(g) should be equal.

Schedule 8 Provisions

Purpose of schedule

278 This schedule records:

a. movements in provisions; and

b. period-end balances on provisions.

Completion of schedule

279 Most of this schedule is calculated from information entered on other forms and schedules. For deferred capital grants, line 1, only enter figures for the 31 July 2000 balance sheet in lines 1(a) balance brought forward, 1(b) capital grants received, 1(e) grants expended in prior year received in current year, 1(f) grants received in prior year expended in current year and 1(g) capital grants released to income and expenditure account in the period. All other information is automatically calculated.

280 For SSAP 24 provision, line 2(a), enter any balance brought forward at 1 August 2000 at line 2(a)(i), any provision made in the period in line 2(a)(ii), the interest due on the provision in the period in line 2(a)(iii) and any expenditure from the provision at line 2(a)(iv).

281 For other provisions, line 2(b), enter any provision carried forward at 31 July 2000 in line 2(b)(i), any provision made in the period in line 2(b)(ii) and any release of provision in line 2(b)(iii).

Schedule 9 Finance leases

Purpose of schedule

282 Analyses payments made under finance leases between the capital element and interest element.

Completion of schedule

283 Providers should enter total payments made under finance leases into line 3. The capital element of the repayment, line 1, is automatically included from the entry made on schedule 7, creditors, line 4(c). The interest element of payments made under finance leases, line 2, is automatically calculated, as line 3 less line 1.

Example

284 A provider has continued obligations under finance leases and hire purchase agreements of £10,000 in 2000/01 and £12,000 in 2001/02, 2002/03 and 2003/04. Repayments of capital are £9,000 during 2000/01 and £10,000 during 2001/02, 2002/03 and 2003/04.

285 In addition, the provider has a new three-year finance lease of £54,000, forecast to begin in 2001/02. The provider has obligations of £20,000 in 2002/03, 2003/04 and 2004/05 in this respect. Repayments of capital are £18,000 in 2002/03 to 2003/04 inclusive.

286 The example requires manual entries in schedule 9, finance leases, line 3; schedule 7, creditors, lines 4(a) to 4(g); and schedule 4, fixed asset additions, line 4(b). The example also affects form 4, cashflow (in the financing and reconciliation sections) and form 3, balance sheet (in the fixed asset section). The abridged schedules below show the entries described in the example above.

287 For the purpose of clarity, depreciation is excluded from this example. Providers are reminded that failure to complete the above schedules fully, where appropriate, can lead to cashflow and/or balance sheet errors.

Completion of schedule 9, finance leases

	Year ended 31 Jul 2001 £000	Year ended 31 Jul 2002 £000	Year ended 31 Jul 2003 £000	Year ended 31 Jul 2004 £000
1 Capital element	9	10	28	28
2 Interest element	1	2	4	4
3 Total finance lease payment	10	12	32	32

Completion of schedule 7, creditors

	Year ended 31 Jul 2001 £000	Year ended 31 Jul 2002 £000	Year ended 31 Jul 2003 £000	Year ended 31 Jul 2004 £000
4 Finance leases a. Finance lease balance brought forward	39	30	20	46
b. New finance leases			54	0
c. Capital element of finance lease payments	9	10	28	28
d. Total finance lease obligations	30	20	46	18
e. Lease payments falling due within 1 year	10	10	28	18
f. Lease payments falling due after 1 year	20	10	18	0
g. Total finance lease obligations	30	20	46	18

Completion of schedule 4, fixed asset additions

	Year ended 31 Jul 2001 £000	Year ended 31 Jul 2002 £000	Year ended 31 Jul 2003 £000	Year ended 31 Jul 2004 £000
4 Other equipment a. Additions – cash purchases				
b. Additions – financed by finance leases			54	
c. Total additions	0	0	54	0

Schedule 10 Analysis of pay expenditure

Purpose of schedule

288 This schedule is used to obtain an analysis of pay expenditure between permanent staff, other staff and staff restructuring expenditure. This analysis is required in financial statements for the sector and is also used for benchmarking.

Completion of schedule

289 For each of the accounting periods providers will analyse total pay expenditure from form 2B line 16. Enter the analysis of expenditure between permanent staff and other staff into lines 1 and 2. The entry for line 3 contracted tuition service staff is automatically calculated from data on form 2B line 13, contracted tuition services. The entry for line 4, staff restructuring, is automatically

calculated from data on form 2B lines 15(a) and 15(b), staff restructuring initial cost and SSAP 24 provision.

290 Line 5, total pay expenditure, is automatically calculated as the sum of lines 1 to 4. Reasoned estimates of the proportion of expenditure of each category of work are acceptable but ensure that the total on this form, line 5, is the same as the total pay expenditure for form 2B line 16.

Schedule 11 Revaluation reserves

Purpose of schedule

291 This schedule is used to record movements in the revaluation reserve.

Completion of schedule

292 The schedule is split into the following categories of assets:

a. inherited land and buildings;

b. inherited equipment;

c. land and buildings financed by capital grant;

d. equipment financed by capital grant;

e. other land and buildings;

f. other equipment;

g. investments; and

h. other fixed assets.

293 Lines 1 to 10 of the schedule cover the movements in the revaluation reserve for inherited land and buildings and equipment.

Line 1, inherited land and buildings brought forward
294 This is the value of inherited land and buildings brought forward.

Line 2, new inherited land and buildings revaluations
295 The entry discloses new revaluations for inherited land and buildings.

Line 3, inherited equipment brought forward
296 This is the value of inherited equipment brought forward.

Line 4, new inherited equipment revaluations
297 This is new revaluations for inherited equipment.

Line 5, total inherited fixed asset revaluations
298 The sum of lines 1 to 4.

Line 6, accumulated transfers to the income and expenditure account brought forward for inherited fixed assets
299 This is the accumulated transfers (depreciation) to the income and expenditure account brought forward for all inherited fixed assets.

Line 7, transfer to income account in current period – depreciation on inherited fixed assets for revalued amount
300 This line is automatically calculated (schedule 5, line 3, total depreciation on inherited assets).

Line 8, transfer to income account in the current period – net book value of disposed inherited fixed assets
301 This line is automatically calculated (schedule 3, line 1(b) minus line 1(c) plus line 4(b) minus line 4(c)).

Line 9, unrealised gain/(loss) on inherited land and buildings
302 This is the unrealised gain or loss on inherited land and buildings.

Line 10, unrealised gain/(loss) on inherited equipment
303 This is the unrealised gain or loss in inherited equipment.

304 In lines 11 to 28 enter revaluations brought forward and new revaluations for:

a. land and buildings financed by capital grant;

b. equipment financed by capital grant;

c. other land and buildings;

d. other equipment;

e. investments; and

f. other fixed assets.

305 The sum of revaluations brought forward and new revaluations, for each category of asset, is calculated automatically.

306 Please note that in lines 29, 30, 31 and 32 the term 'other fixed assets' includes all the categories of fixed assets listed in paragraph 301 above.

Line 29, accumulated transfers to the income and expenditure account brought forward for other fixed assets
307 This is accumulated transfers to the income and expenditure account brought forward for other fixed assets.

Line 30, transfer to income account in current period – depreciation on other fixed assets for revalued amount
308 This line is automatically calculated (the sum of lines 7 and 13 from schedule 5).

Line 31, transfers to income and expenditure account in the current period – revaluation portion of the net book value of disposed other fixed assets
309 This is the revaluation portion of the net book value of disposed other fixed assets.

Line 32, unrealised gain/(loss) on other fixed assets
310 This is the unrealised gain or loss on other fixed assets.

Line 33, revaluation reserve balance
311 This line is calculated automatically from figures entered in schedule 11 (line 5 minus lines 6, 7 and 8, plus lines 9, 10, 13, 16, 19, 22, 25, 28, minus lines 29, 30 and 31 plus line 32).

Example

312 Schedule 11 is revised to allow for revaluations of assets acquired since incorporation and further revaluation of inherited assets. An example is set out below of how to account for a revaluation of assets and subsequent disposal.

313 A provider holds the following assets that it revalues at 31 July 2001.

	Net book value of assets at 31 July 2000 £000	Depreciation charge in year to 31 July 2001 £000	Revaluation at 31 July 2001 £000	Amount of revaluation £000
Inherited land and buildings†	400	20	500	120(a)
Land and buildings financed by capital grant	200	10	250	60(b)
Other land and buildings	200	20	250	70(c)
Inherited equipment *	50	10	30	(10)(d)
Equipment financed by grant	200	10	150	(40)(e)
Other equipment	600	100	500	0
Other assets	30	5	25	0
Total	1680	175	1705	200

† Valuation at 1 April 1993 £600,000 (f) less depreciation £200,000 (g)
* Valuation at 1 April 1993 £100,000 (h) less depreciation £50,000 (i)

314 The net book value at 31 July 2000 will be entered on form 3 as normal. The depreciation charge for 2001 will be recorded on schedule 5 as normal.

315 The revaluation will be recorded as follows:

Schedule 11

Line		£000
1	inherited land and buildings brought forward	600(f)
2	new inherited land and building revaluations	120(a)
3	inherited equipment brought forward	100(h)
4	new inherited equipment revaluations	(10)(d)
5	total inherited fixed asset revaluations	810 total of 1–4 above
6	accumulated depreciation transfers to income and expenditure account brought forward for inherited assets	(250) (g) plus (i)
7	transfer to income and expenditure account depreciation on inherited assets	(30) from schedule 5
12	new land and buildings financed by capital grant revaluations	60 (b)
18	new other land and buildings revaluations	70 (c)
33	revaluation reserve balance	660 total

Form 2a

Line		£000
13	miscellaneous	40 (e)

Schedule 3

Line		£000
5b	cost or valuation	40 (e)

316 The last two entries cover the revaluation loss on equipment financed by grant that will be taken to the income and expenditure account. The revaluation loss on inherited equipment can be taken to the revaluation reserve as there is an existing revaluation gain for these assets.

317 Depreciation on the revalued amount will then be recorded as follows:

	Year ended 31 July 2002 £000
a. inherited assets on schedule 5 as previously	
– line 1 (assuming 20 years remaining life)	25
– line 2 (assuming 3 years remaining life)	10
b. land and buildings financed by grant	
– schedule 5	
– line 4(a) depreciation cost	10
– line 4(b) depreciation on revalued amount	3
– assuming 20 years remaining life before and after revaluation	
c. equipment financed by grant	
– schedule 5	
– line 5(a) depreciation on cost	30
– (entry on this line only as no release from revaluation reserve)	
– (assuming 5 years remaining life)	
d. other land and buildings	
– schedule 5	
– line 9(a) depreciation on cost	10
– line 9(b) depreciation on revalued amount	3
– (assuming 20 years remaining life before and after revaluation)	

318 The provider then disposes of the following assets in 2002/03:

a. inherited land and buildings valued at £250,000 (that is 50% of the inherited assets) in 2001 for proceeds of £150,000; and

b. other land and buildings valued at £100,000 (that is 40% of the other land and buildings) in 2001 for £200,000.

319 The following entries are needed:

Schedule 3

Line		Year ended 31 July 2003 £000
1(a)	sale proceeds	150
1(b)	valuation	250
1(c)	accumulated depreciation	13[(1)]
3(a)	sale proceeds	200
3(b)	valuation	100
3(c)	accumulated depreciation	4[(2)]

Form 1

Line		£000
17	surplus/(deficit) on asset disposals (loss on (a) of £87,000 and profit on (b) of £104,000)	17

(1) 50% of the charge at paragraph 311(a) line 1
(2) 40% of charge at paragraph 311(d) line 9a

Schedule 11

Line		Year ended 31 July 2003 £000
31	transfer to income account in current period – revaluation portion of net book value of disposed other fixed assets (40% of figure c) at paragraph 305)	28

Form 3

Line		£000
2(d)	cash	350

Schedule 12 Cashflow reconciliation

Purpose of schedule

320 To reconcile the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities for form 4 cashflow statement.

Completion of schedule

321 This schedule is automatically calculated from entries made on other forms and schedules.

Points to note

a. line 1, surplus/(deficit), is taken from form 1, line 18, surplus/(deficit) including asset transactions (after tax);

b. line 7, (increase)/decrease in debtors – excludes any debtors for interest and capital grants;

c. line 10, increase/(decrease) in other payments on account – excludes any capital grant debtors;

d. line 11, increase/(decrease) in other liabilities – excludes interest creditors and finance lease balances; and

e. line 12, increase/(decrease) in provisions – includes total provisions.

Schedule 13 Analysis of net debt

Purpose of schedule

322 To obtain an analysis of net debt relevant to the cashflow statement, form 4.

Completion of schedule

323 This schedule is automatically calculated from data entered on:

a. form 3, balance sheet, line 2(c) short-term investments;

b. form 3, balance sheet, line 2(d) cash; and

c. schedule 7, creditors, line 1(a) bank overdraft.

324 Entries cannot be made directly onto this schedule.

325 Information contained on this schedule is used on form 4, cashflow statement, lines 8(f) net funds/(debt) at beginning of year and 8(g) net funds/(debt) at end of year.

Schedule 14 Forms A and B ratio analysis

Purpose of schedule

326 This schedule is used to inform providers of key financial indicators from the forecasts prepared. The calculations for each indicator are set out in annex D to this supplement.

Completion of schedule

327 The income figure used in this schedule is total income, excluding asset transactions (line 14 form 1) less income for payments under section 6(5) of the 1992 Act (line 10 form 1), and less release of capital grants (line 2 form 1).

Error messages

328 If any of the schedules or forms are incomplete, an error message will appear. Ignore them until all forms and schedules are completed. If error messages continue to be displayed after all figures are entered, then investigate the cause.

329 The error messages are:

Form 2A

a. income received for payments under section 6(5) of the 1992 Act does not equal payments made under section 6(5) of the 1992 Act, if line 10 form 1 and line 11 form 2A are not equal in any period;

b. please enter your premises area (m^2).

Form 2B

a. analysis of pay costs does not equal total pay expenditure form 2B, if line 5 schedule 10 and line 16 form 2B are not equal in any period;

b. total pay expenditure does not equal form 2B, if line 11 form 5 and line 16 form 2B are not equal in any period;

c. total non-pay expenditure does not equal form 2A, if line 5 form 5 and line 18 form 2A are not equal in any period;

d. please enter the number of teaching staff (FTEs);

e. please enter the number of non-teaching staff (FTEs).

Form 3

a. the balance sheet does not balance, if line 8 and line 15 on form 3 are not equal in any period;

b. the total of inherited assets (line 1a plus line 1d) does not equal the balance on revaluation reserve. This error message will only be triggered if the provider has answered no to line 13 of form 5.

Form 4

a. the cashflow statement does not balance for 2001, 2002, 2003 or 2004 if line 8(e) plus line 8(f) does not equal line 8(g).

Form 5

a. insert Y or N to comment on whether the provider has revalued its assets;

b. assign provider to health group A, B or C;

c. insert Y or N to comment on whether the figures for the year ending 31 July 2002 are also the budget for the year ended 31 July 2002 and are approved by the corporation;

d. insert Y or N to confirm that the provider's risk management plan, as attached, is approved by the corporation.

Schedule 1A

a. please enter forecast FTEs, 16 to 18 full-time;

b. please enter forecast FTEs, other;

c. please enter franchise provision units, if applicable.

Schedule 7

a. analysis of loans falling due within one year and after one year does not equal total loans, if lines 1(b)(v) and (viii) schedule 7 are not equal in any period;

b. the value in line 2(c) must equal line 2(f);

c. the value in line 4(d) must equal line 4(g);

d. the value in line 5(d) must equal line 5(g).

Schedule 8 provisions

a. insufficient SSAP 24 provision made to allow for release of provision, if schedule 8 line 2(a)(iv) is greater than the sum of lines 2(a)(i), 2(a)(ii) and 2(a)(iii) in any period.

330 Please ensure that all error messages are cleared before the forecast is returned to the Council.

Negative figures

331 Within the financial forecast application, entry of negative figures is only permitted in the following lines:

a. line 5 (a)(i) repayment of European funding;

b. line 12, results of subsidiary companies not consolidated;

c. asset disposals in line 17 and 18, surplus/(deficit) on asset disposals/transactions;

d. line 19, transfer to/from revaluation reserves;

e. lines 21 and 22, transfer to/from reserves; and

f. line 24, balance brought forward on income and expenditure account at 1 August 2000 only.

Form 5

a. reconciliation of movements between years.

Schedule 11

a. lines 6, 7 and 31 unrealised gains or losses on revaluation reserve.

332 If negative figures are input into any other lines, an error message will appear on the relevant form.

333 The use of negative figures is not restricted in the mid-year update. When entering data into this application, it is important to ensure that the negative value is input, if applicable. This is particularly important when entering data onto the cashflow statement.

Section 4: Financial returns spreadsheets

Three-year financial forecast

334 The workbook called Forcst01.xls contains the three-year financial forecast forms and schedules.

Finance record 2000/01

335 The finance record 2000/01 covers the 12-month period ending 31 July 2001. It includes the first column of forms 1, 2A, 2B and 4 and schedule 1B of the three-year financial forecast, and the second column of form 3. Please note that in the finance record, schedule 1 is the equivalent to schedule 1B of the financial forecast. The finance record also includes a new schedule, schedule 2, which has been included to capture data on senior postholders' emoluments and pay awards, and also expenditure relating to audit fees and overseas activities.

336 Providers are asked to complete the column of figures in forms 1, 2A, 2B, 3 and 4 and schedules 1 and 2 and return this information to the Council. Please ensure that line 2 of form 1, release of capital grants, includes the sum of Learning and Skills Council capital grants and capital grants from all other sources.

337 Where there are variances between the final out-turn for 2000/01 and the forecast provided in 2001 that are greater than 1%, providers should explain the variances in an accompanying commentary.

338 The workbook called Record01.xls contains the finance record forms for 2000/01.

Mid-year update 2001/02

339 The mid-year update contains forms 1, 2A, 2B, 3 and 4 and schedule 1 (schedule 1B of the three-year financial forecast). The headings in each of the forms are identical to those used in the three-year financial forecast. There are four columns of figures in this return. The first column is the provider's original estimate of the out-turn for the year ending 31 July 2002. This column will be consistent with the provider's forecast for this period returned to the Council in the three-year financial forecast. The second column is used for the provider's revised forecast for the year. Columns 3 and 4 are calculated automatically and show the variation between the original forecast and the mid-year update of the figures. The variation is displayed as an actual difference and as a percentage.

340 Where there are variances between the final out-turn for 2001/02 and the mid-year update provided in February 2002 that are greater than 1% providers should explain the variances in an accompanying commentary.

341 The workbook called Midyr01.xls contains the mid-year update forms for the year 2001/02.

Potential problems

342 A number of issues caused problems for providers completing past years' financial forecasts. The most common problems were:

a. balance sheet or cashflow does not balance;

b. saving data to disk;

c. printing forms; and

d. Council support for capital projects.

Solutions to these problems are suggested below

Balance sheet does not balance

343 Many providers 'completed' their forecasts only to find that the balance sheet did not balance. In most cases, the error was due to incomplete recording of transactions. The following checklist will help identify the reason for imbalance in the majority of cases:

a. the balance sheet should balance at lines 8 and 15. If it does not balance, the forecast is incomplete;

b. the most common area where errors occur is schedule 7, creditors. The following lines in the schedule should be equal. If they are not equal then the balance sheet will not balance:

- line 1(b)(v) will equal line 1(b)(viii)
- line 2(c) will equal line 2(f)
- line 4(d) will equal line 4(g)

c. after schedule 7, capital grants cause the most problems. 'Payments on account' or 'capital debtors' require particular care; and

d. other entries to check if the two schedules above are correct are:

- debtors, schedule 6
- provisions and deferred capital grants, schedule 8.

344 Please note that unrealised gains or losses on assets will be accounted for in schedule 11, revaluation reserve.

Copying data to disk

345 If providers have any problems with the operation of the workbook they should contact their local Learning and Skills Council. Providers will be able to access details of their local Council office from the Council website at www.lsc.gov.uk\contact\contact.cfm.

Installation

346 The workbooks for the three-year financial forecast will be available on the Council's website (www.lsc.gov.uk). Providers will be able to download the workbooks as Excel 97-2000 5.0/95 workbooks.

Website

347 To download the workbooks from the Council's website, go to www.lsc.gov.uk. Click on the link **Documents**, then click on the link **Circulars** and scroll down to the circular titled **Strategic Plans including Financial Forecasts and Accommodation Data**. Providers will be able to download the spreadsheet as an Excel 97-2000 5.0/95 workbook (please save the

workbook in the same format). **Please return the workbook via floppy disk.**

Form layout

348 The screen titles will differ depending on the form selected. Depending on the screen settings of the monitor, only part of a form may be seen at any time. The display can be changed within the current screen settings by choosing the percentage adjuster on the standard toolbar. Click on the scroll bar or the up and down arrows on the scroll bar to move up and down within the form.

349 The forms contain either data entry fields or data entry and calculated fields. Calculated fields are shaded and it is not possible to enter data into these fields. It is only possible to enter data into the data entry fields. All the other cells are locked and if an attempt is made to input data, an error message will inform the user that the field is locked. This means that data cannot be entered in this field.

Saving and exiting forms and schedules

350 To save information that you have entered or amended, select Save from the File menu or select Close from the File menu. If amendments are made to the workbook, the program will prompt you to save the changes before closing the workbook. You can use your own appropriate file names at this stage. Make sure you keep copies of this workbook.

351 Error messages will be shown on the individual forms if all schedules are not completed. These messages are explained in previous sections. It is necessary to save a form or schedule before exiting and the application will prompt you to do so when you try to close the file from a form or schedule. If no amendments are made, the form will close without prompting a save. Amendments made to the form or schedule will be lost if the form or schedule is *not saved*.

Printing forms

352 To print the details of an individual form or to print details of all forms:

a. select Print from the File menu options;

b. the print option is set up to print sheets individually. If you wish to print all of the worksheets, select 'entire workbook' from the 'print what' option; and

c. click on the OK button.

353 The printout will be sent to the current Windows default destination printer. If you wish to confirm or amend the destination printer, select Print from the File menu options. Check which printer is selected in the name box.

354 To select a different printer, press the arrow to the right of the Name box. This will provide you with a drop-down list of all available printers. Select the printer you require.

355 The page setup defaults for each form are A4 paper size with portrait orientation.

Copying data for return to the Council

356 The workbook can be saved on any available secure drive, including networked drives (providers are advised to store copies of the workbook in a safe place, that is, on a backed-up drive, or save a copy to floppy disk). When complete, the workbook should be saved to floppy disk using File, Save As, highlight

drive A: and save the workbook as Forcst01.xls. The workbook can also be copied onto disk from the drive it is stored in by using Windows Explorer. To save the workbook Forcst01.xls onto disk using this method, ensure that the file to be saved is closed and insert a formatted disk in the computer disk drive (normally drive A:). In Windows Explorer select the folder where the workbook is stored on the hard drive, click on the workbook name, right mouse click and click copy. Then select your floppy drive (usually A:drive), right mouse click and click paste. When completed, the workbook should be saved to a floppy disk with the file name Forcst01.xls.

Annex A: Checklist for commentary

1 The checklist below is for providers' own use and does not need to be returned to the Council.

Financial objectives

2 Has the provider set detailed financial objectives?

3 Are they set out in the commentary?

Strategic plan

4 Is there a clear link between the projected learner numbers included in the strategic plan and the growth in funding units and full-time equivalent learner numbers recorded on schedule 1A of the financial forecast? If not, please explain any changes in the commentary.

5 Do the payroll costs included in form 2B of the forecast reflect future staffing plans?

6 Does the financial forecast reflect the financial implications of the provider's accommodation strategy?

7 Does the financial forecast demonstrate that the provider's financial objectives are being achieved? If they are not, is this addressed in the commentary?

Statement of key assumptions

8 Does the commentary include assumptions about:

a. growth in funding units and average level of funding (ALF);

b. income from the Learning and Skills Council other than participation element;

c. income from non-Learning and Skills Council sources, in particular:

- education contracts
- tuition fees
- European funds
- commercial activities
- New Deal;

d. implementation of accommodation strategy in terms of:

- capital investment
- long-term maintenance
- routine maintenance;

e. increases in the pay bill arising from the effects of pay awards made;

f. changes in national insurance contributions;

g. changes in pension fund contributions;

h. incremental drift. Where incremental scales exist, estimate the incremental gain resulting from staff losses at the high end of the incremental scale being offset by new staff at the lower end; and

i. any changes anticipated for the local government superannuation scheme?

9 Does the commentary include the general level of pay awards assumed in the forecast?

10 Does the commentary state any variation in the general inflation rate for specific items of income or expenditure?

11 Does the commentary state the interest rates assumed?

12 Does the commentary state the assumptions underlying income from all sources and all expenditure cuts?

Approval

13 Has the whole governing body approved the forecast?

Self-assessment of financial health

14 Has the governing body made regular assessments of the provider's financial health?

15 Has a review of the strategic plan and financial forecast taken place to assess whether the provider is able to support its plan with the resources identified?

16 Have the underlying strengths and weaknesses of the provider's financial position been examined to assess the extent to which the provider is likely to be vulnerable to adverse variances?

17 Does the commentary explain the provider's financial health falling in Group A, B, or C?

18 Has the provider given reasons in the commentary for its self-assessment of financial health being different from the computed health group, if applicable?

National Audit Office recommendations

19 The National Audit Office report *Managing Finances in English Further Education Colleges*, published in May 2000, raised some very important issues.

20 In response to this, providers are asked to include as part of the commentary to support the financial forecast a self-assessment of their own practices in respect of the following recommendations from the report. The following table is provided as a suggested format.

Recommendation	Current procedures for dealing with this recommendation	Proposed procedures for dealing with this recommendation
i. Produce accurate and timely management information, particularly in respect of Council targets		
ii. Produce detailed and timely management accounts distributed to a wider audience		
iii. Accurate and timely forecasting of out-turn units against Council targets		
iv. Payroll expenditure, both actual and forecast, are centrally monitored on a monthly basis[1]		
v. Procedures in respect of ESF money and other sources of non-Council funding are robust and satisfy the funding body's requirements		
vi. Clear and consistent costing policies and processes should be established, including course costing processes, the results of which are reported regularly to governors		
vii. Governors should closely monitor the financial health of the provider		
viii. Benchmarking of provider costs should be carried out		
ix. Performance indicators in addition to those recommended by the Council to be developed and reported on frequently		

[1] including agency staff costs

Supplementary information required in the commentary

Form 1

21 Does the commentary give a detailed explanation of all significant transfers to and from reserves?

22 Does the commentary explain significant year-on-year movements?

23 Does the commentary explain any variances between the latest estimate of out-turn for the current year and the original budget?

24 Does the commentary give the sources of grant income?

25 Does the commentary give the nature of any repayment of European Social Fund (ESF) funding.

26 Does the commentary give the sources of income from franchising provision?

27 Does the commentary give the main income-generating activities?

28 Does the commentary give the names, and nature of business, of all subsidiary companies?

Forms 2A and 2B

29 Does the commentary give details of any provisions included in expenditure?

30 Does the commentary explain large year-on-year movements?

31 Does the commentary give details of any remaining Hunter funds claimed, analysed into priority 1(a) and 1(b)?

32 Does the commentary give details of the costs of implementing curriculum 2000?

Form 3

33 Does the commentary identify significant asset purchases and disposals, including consents and purposes?

34 Does the commentary give the details of any loans, including consents and background?

35 Does the commentary explain significant year-on-year movements in debtors and creditors?

Form 5

36 Has the reconciliation of movements between years been completed?

37 Has the self-assessment been completed?

38 Has the budget statement been completed?

39 Has the risk management plan been completed and approved by the board of governors?

40 Has the principal signed the form?

Planned maintenance

41 Does the commentary give details of the provider's planned maintenance programme, if applicable?

Risk management

42 Has the provider attached a risk management plan that is approved by the governing body?

43 Does the risk management plan cover disaster planning, risk analysis, sensitivity analysis and contingency planning?

Sensitivity analysis

44 Does the sensitivity analysis deal with:

a. shortfalls in recruitment;

b. tariff changes;

c. changes to fee structures;

d. larger than expected pay increases;

e. higher costs of borrowing;

f. lack of Council support for capital schemes; and

g. the effect on all income sources?

45 Is the risk analysis consistent with the sensitivity analysis, in particular in the assessment of projected learner numbers?

46 Does the commentary to support the sensitivity analysis identify expenditure that could be shed, if necessary, within the next three years? Is this linked to the contingency plan?

47 Where a reduction in the range of provision is proposed, was this discussed with the Council?

48 Where the assumptions are pessimistic and likely to push the provider towards insolvency, does the commentary to support the sensitivity analysis set out the contingency measures necessary to restore the situation? Is this also addressed in the strategic plan?

49 Does the commentary to support the sensitivity analysis include any changes that result from more pessimistic assumptions than those made above?

50 Does the commentary to support the sensitivity analysis include the results of any changes in capital funding?

51 Does the commentary to support the sensitivity analysis include any remedial action to be taken to moderate the financial effects of more pessimistic assumptions?

52 Does the commentary to support the sensitivity analysis address all items included in the risk analysis within the strategic plan?

Other information

53 Does the commentary give the name and telephone number of the contact person for all enquiries?

Annex B: Examples of financial objectives adopted by providers

1 The provider wishes to remain financially sound so as to:

a. protect itself from unforeseen adverse changes in enrolments; and

b. generate sufficient income to enable maintenance and improvement of its accommodation and equipment.

2 The provider wishes to maintain, or attain, the confidence of funders, suppliers, bankers and auditors.

3 The provider wishes to raise awareness of provider staff of the financial environment under which it operates.

4 Specifically these objectives will be achieved by:

a. maintaining a sound financial base (solvency and liquidity):

- we will have a general reserve of XX% of income by 31 July XXXX and YY% by 31 July XXXX
- we will maintain cash days of XX or more at all times
- we will achieve breakeven by 31 July XXXX and have an operating surplus by 31 July XXXX
- we will generate a cash inflow from operating activities by 31 July XXXX
- we will reduce borrowing to XX% of general reserves by 31 July XXXX, and YY% by 31 July XXXX
- we will have a current ratio of more than XX:1 by 31 July XXXX);

b. improving financial management:

- we will produce management accounts on a monthly basis incorporating an income and expenditure account, balance sheet, 12-month rolling cashflow forecast, capital expenditure, financial performance indicators, staffing information and funding unit information (including forecasts)
- we will strengthen procedures for testing the desirability and affordability of any proposals which have a financial implication by 31 July XXXX
- we will introduce post-implementation review procedures to assess the success or otherwise of major investments (building, information technology, staffing, marketing, etc) exceeding £XX,XXX by 31 July XXXX);

c. maintaining the confidence of funding bodies, suppliers and professional advisors:

- providing financial and non-financial returns on time and in the agreed format
- ensuring all returns requiring certification by auditors are unqualified
- adhering to the provider's policy to pay all suppliers within XX days of receipt of an invoice;

d. raising awareness of financial issues:

- providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the provider's financial procedures
- providing adequate information to ensure staff, management and governors are kept up to date with the financial position of the provider; and

e. improving the stock of provider accommodation and equipment:

- generating sufficient funds to ensure the provider's specified programme of planned maintenance can be undertaken
- generating sufficient funds to ensure the provider can invest in new technology and equipment required to support learning programmes and provider administration
- ensuring adequate procedures are in place to protect assets from loss, theft and neglect.

Annex C: Suggested sensitivity analysis and contingency plans

Risk	Likelihood	Impact	Possible loss in one year	Contingency plans
1 Planned growth not achieved	L	M	£X–Y	a. reduce staff costs £Y by Z FTEs b. increase income from letting activities £Z
2 Growth not funded	H	M	£X–Y	a. route through ESF £Y
3 Pay increase higher than anticipated	L	M	£X–Y	a. extend contract hours to save on FTEs
4 Capital project costs exceed budget	H	H	£X–Y	a. renegotiate payment terms b. use existing fixtures rather than replacing £X c. negotiate a fixed price
5 Major capital project delayed completion	M	H	£X–Y	a. temporary cut-back in planned growth and staff recruitment until project is completed b. cut back non-pay costs to offset continuing maintenance costs of old buildings
6 All risks identified in the strategic plan should be addressed				

Key: L, low; M, medium; H, high.

1 It is useful to consider separately how likely it is that the risk will occur and the seriousness of the impact. If the provider is planning to dispose of property and is close to completing a deal there may be a low risk that it will not go through but the impact of the sale falling through on the provider and subsequent plans is likely to be high.

2 In drawing up contingency plans to mitigate the effect of the risk, quantify the cost of remedial action. Many plans sent to the Council, whilst identifying actions, do not cost them.

3 Providers should note that whilst they are encouraged to have sufficient reserves and contingency sums in order to maintain their solvency when adverse sensitivities arise, the use of reserves does not represent an adequate contingency plan action. All actions within the contingency plan should directly address reducing and preferably removing the adverse financial impact of the risk concerned.

4 In the accompanying narrative explain why the likelihood of risk is assessed as high or low.

5 Ensure that risks identified within the provider's risk assessment are adequately covered by the provider's sensitivity analysis. In order to ensure consistency it is recommended that providers combine their risk assessment documents and their sensitivity analysis in the provider's risk management plan. This matter is dealt with in greater detail in annex D.

6 Providers may find it helpful to consider whether significant actual adverse situations had been adequately included in past sensitivity analyses and, if not, consider whether similar risks are adequately covered in the current sensitivity analysis.

Annex D: Calculation of ratios

Schedule 14A

1 Income used in ratio analysis

Calculation:
total income, excluding asset transactions (form 1 line 14) less income for payments under section 6(5) of the *Further and Higher Education Act 1992* (the Act) (form 1 line 10) less release of capital grants (form 1 line 2).

2 Short-term solvency

a. cash days in hand

Calculation:
total cash (form 3, line 2(d)) plus current asset investments (form 3, line 2(c)) less bank overdrafts (form 3, line 3(a)) multiplied by 365 (days) divided by total income (calculated at 1 above);

b. current ratio

Calculation:
total current assets (form 3 line 2(e)) divided by total current liabilities (form 3 line 3(h));

c. debtors days – excluding the Learning and Skills Council and Higher Education Funding Council for England (HEFCE)

Calculation:
[other accrued income (schedule 6 line 5) plus prepaid expenditure (schedule 6 line 6) plus trade debtors (schedule 6 line 7) plus other debtors (schedule 6 line 8)] divided by [total income (form 1 line 14) less Leaning and Skills Council recurrent grant, main allocation (form 1 line 1(a)) less Learning and Skills Council recurrent grant, other (form 1 line 1(b)) less release of capital grants (form 1 line 2) less education contracts, higher education (HE) income, HEFCE (form 1 line 3(c)(i)) less income for payments under section 6 (5) of the Act 1992 (form 1 line 10) less interest receivable (form 1 line 13)] multiplied by 365 (days);

d. creditors days – non-pay expenditure

Calculation:
trade creditors (form 3 line 3(d)) divided by [total non-pay expenditure (form 2A line 18) less other interest payable (form 2A line 16) less depreciation (form 2A line 14)) less payments made under section 6(5) of the Act 1992 (form 2A line 11) less interest on SSAP 24 provision (form 2A, line 15)] multiplied by 365 (days);

e. quick ratio

Calculation:
total current assets (form 3 line 2(e)) less stock (form 3 line 2(a)) divided by total liabilities (form 3 line 3(h)).

3 Ability to generate cash

a. cash generated from operations to income

Calculation:
net cash inflow/(outflow) from operating activities (form 4 line 1) divided by income (calculated at 1 above).

4 Indebtedness

a. debt charges as a percentage of income

Calculation:
repayment of amounts borrowed (form 4 line 6(c)) plus repayment of local education authority (LEA) deficit loan (form 4 line 6(d)) plus interest paid (form 4 line 2(b)) plus interest element of finance lease rental payments (form 4 line 2(c)) divided by income (calculated at 1 above);

b. total borrowing as a percentage of income

Calculation:
bank overdraft (schedule 7 line 1(a)) plus total loans (schedule 7 line 1(b)(viii)) plus total LEA deficit loan (schedule 7 line 2(f)) divided by income (calculated at 1 above);

c. total borrowing as a percentage of reserves

Calculation:
bank overdraft (schedule 7 line 1(a)) plus total loans (schedule 7 line 1(b)(viii)) plus LEA deficit loan (schedule 7 line 2(f)) divided by total reserves (form 3 line 14) less revaluation reserve (form 3 line 10).

5 Reserves

a. surplus/(deficit) as a percentage of income

Calculation:
surplus/(deficit) after tax, excluding asset transactions (form 1 line 16 (b)) divided by income (calculated at 1 above);

b. historical cost surplus/(deficit) as a percentage of income

Calculation:
historical cost surplus/(deficit) (form 1 line 20) divided by income (calculated at 1 above);

c. available reserves as a percentage of income

Calculation:
income and expenditure account (form 3 line 13) plus designated reserves (form 3 line 12) divided by income (calculated at 1 above);

d. reserves as a percentage of income

Calculation:
total reserves (form 3 line 14) less revaluation reserve (form 3 line 10) divided by income (calculated at 1 above).

6 Average level of funding (ALF)

a. value taken from schedule 1a line 14.

Schedule 14B

1 Income

a. year-on-year increase – income

Calculation:
total income as calculated in schedule 14, form A, line 1) divided by (total income for previous year) minus 100%;

b. growth in units

Calculation:
(total units (schedule 1a line 1)) divided by (total units for previous year) minus 100%;

c. dependency on Learning and Skills Council income

Calculation:
[Learning and Skills Council recurrent grant, main allocation (form 1 line 1(a)) plus Learning and Skills Council recurrent grant, other (form 1 line 1(b)) plus former TEC income (form 1, line 1(c))] divided by income (schedule 14A line 1);

d. dependency on European income

Calculation:
grant income European funds ((form 1 line 5(a) minus form 1 line 5(a)(i)) divided by income (schedule 14A line 1));

e. dependency on higher education income

Calculation:
higher education income (form 1 lines 3(c)(i)) plus 3(c)(ii)) plus tuition fees and charges (form 1 line 4(c)) divided by income (schedule 14A line 1);

f. dependency on Training and Enterprise Council (TEC) income

Calculation:
education contracts; TEC (form 1 line 3(b)) divided by income (schedule 14A line 1);

g. dependency on other income

Calculation:
all other income not included in the above income ratios (form 1, lines 3(a), 3(d), 3(e), 4(a), 4(b), 4(d)(i), 4(d)(ii), 5(b), 6 to 9 (inclusive) and 11 to 13 (inclusive)) divided by income (schedule 14A line 1);

h. surplus/(deficit) on franchised provision

Calculation:
franchised provision (schedule 1A, line 20) multiplied by the ALF (schedule 1A, line 14) multiplied by London weighting factor (schedule 1A, line 13) less franchised provision costs (form 2A, line 12) less franchised provision costs (form 2B, line 11);

i. surplus/(deficit) on catering and residences

Calculation:
catering and residences income (form 1 line 8) minus catering and residences expenditure (form 2A line 9 plus form 2B line 9);

j. surplus/(deficit) on other income-generating activities

Calculation:
other income-generating activities income (form 1 line 7) minus other income-generating activities expenditure (form 2A line 8 plus form 2B line 8);

k. surplus/(deficit) on farming

Calculation:
farming income (form 1 line 9) minus farming expenditure (form 2A line 10 plus form 2B line 10).

2 Expenditure

a. pay expenditure as a percentage of income (including contract tuition services)

Calculation:
total pay before restructuring (form 2B line 14) divided by income (schedule 14 A line 1);

b. pay expenditure as a percentage of income (excluding contract tuition services)

Calculation:
total pay before restructuring (form 2B line 14) minus contract tuition services (form 2B line 13) divided by total income (schedule 14A line 1);

c. permanent payroll proportion

Calculation:
permanent staff expenditure (schedule 10 line 1) divided by total payroll expenditure (schedule 10 line 5);

d. year-on-year increase – pay expenditure

Calculation:
total pay expenditure before restructuring (form 2B line 14) divided by (total pay expenditure before restructuring for previous year) minus 100%;

e. administration costs proportion

Calculation:
total admin costs (form 2A, line 4 plus form 2B line 4) divided by total expenditure (form 2B line 18);

f. year-on-year increase – non-pay expenditure

Calculation:
total non-pay expenditure (form 2B line 17) divided by (total non-pay expenditure for previous year) minus 100%;

g. premises cost per metre squared

Calculation:
premises costs [non-pay expenditure (form 2A lines 6(a) running costs, 6(b) maintenance and 6(c) rents and leases) plus pay expenditure (form 2B lines 6(a) running costs and 6(b) maintenance)] multiplied by 1000 divided by total provider area (input by provider at form 2A, line 19)).

3 Other

a. trading ratio

Calculation:
total income as defined above, divided by total reserves (form 3 line 14);

b. average cost per teaching post

Calculation:
teaching departments; teaching staff (form 2B line 1(a)) divided by number of teaching staff (FTEs) (input by provider at form 2B, line 19);

c. average cost per non-teaching post

Calculation:
total pay expenditure before restructuring (form 2B line 14) minus teaching departments; teaching staff (form 2B line 1(a)) minus contract tuition services (form 2B line 13) divided by number of non-teaching staff (FTEs) (input by provider at form 2B, line 20);

d(i) staff costs per learner (FTE): teaching

Calculation:
teaching departments; teaching staff (form 2B, line 1(a)) plus contracted out tuition costs (form 2B, line 13) divided by [forecast learners FTEs 16–18 full time (schedule 1A, line 19(a)) plus forecast learners FTEs, other (schedule 1A, line 19(b))];

d(ii) staff costs per learner (FTE): non-teaching

Calculation:
total pay expenditure before restructuring (form 2B line 14) minus contracted tuition services (form 2B line 13) minus teaching

departments; teaching staff (form 2B line 1(a)) divided by forecast learners FTEs 16–18 full time (schedule 1A, line 19(a)) plus forecast learners FTEs, other (schedule 1A, line 19(b));

e. number of learners (FTEs) per teaching staff (FTEs)

Calculation:
forecast FTEs 16–18 full time (schedule 1A, line 19(a)) plus forecast FTEs other (schedule 1A, line 19(b)) divided by number of teaching staff (FTEs) (form 2B, line 19);

f. total cost per learner (FTEs)

Calculation:
total expenditure (form 2B, line 18) divided by forecast FTEs 16–18 full time (schedule 1A, line 19(a)) plus forecast FTEs other (schedule 1A, line 19(b)).

Notes

Notes

Notes

This publication is available in an electronic form on the Council's website: www.lsc.gov.uk

Reference CIRC/0009/01