

2011/12 Accounts Direction Handbook

This Handbook is of interest to principals and chief executives of colleges, finance directors at FE colleges and Sixth Form colleges, financial statements auditors, directors of funding bodies and other key organisations in the learning and skills sector. This Handbook supersedes the Accounts Direction Handbook published for the 2010/11 financial statements.

May 2012



Education
Funding
Agency



Accounts Direction Handbook 2011/12

Effective for all Colleges' financial statements ending on or after 31 July 2012

Executive Summary

The Accounts Direction Handbook (the Handbook) consolidates all previous accounting policies guidance and supplements the *2007 Statement of Recommended Practice: Accounting for Further and Higher Education* (the 2007 SORP). The Handbook has been prepared in the light of the following objectives:

- to be a **one-stop document** that Colleges can refer to when completing their financial statements
- to provide further clarification to Colleges on completing the members' report (or "Operating and Financial Review") and the accounts to the financial statements
- to provide a version of the Handbook on the funding bodies' websites, which is up-to-date for changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the Skills Funding Agency and the Education Funding Agency (EFA) which assumed the responsibilities of the Young People's Learning Agency from the 1st April 2012.

This Handbook is of interest to principals and chief executives of Colleges, finance directors at Colleges, financial statements auditors, directors of funding bodies, and other key organisations in the Learning and Skills Sector.

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This Handbook supersedes the Accounts Direction Handbook published for the 2010/11 financial statements.

Production of this Handbook has been a joint exercise involving the College Finance Directors Group (CFDG), the Association of Colleges (AoC), the Skills Funding Agency and the EFA in consultation with financial statements auditors. The Handbook supplements the *2007 Statement of Recommended Practice (2007 SORP)* and consolidates all previous accounting policies guidance issued.

May 2012

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Chapter 1: Summary

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1: Introduction

Introduction

1. The purpose of this Handbook is to provide direction on the preparation of Colleges' financial statements for the year ending 31 July 2012 and to identify issues that will require consideration for future years. This direction supplements that in the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (the 2007 SORP) and supersedes the Handbook published for the 2010/11 financial statements.
2. In publishing this guidance, the Skills Funding Agency and the EFA have worked with the CFDG and the AoC and consulted with College financial statements auditors.
3. The accounting policies and guidance set out in this handbook for the sector are applicable to all Colleges, regardless of their size, constitution or complexity. The policies and guidance are not currently applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding.
4. Accounting policies need not be applied to immaterial items. Guidance on the determination of what is material may be found in statement 2.401 *The Interpretation of "Materiality" in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales.

Financial supervision of Colleges

5. Colleges which are now formally designated as Sixth Form Colleges either because they were initially designated under the Initial Sixth Form College Corporation Designation (England) Order 2010, or because they subsequently elected to be designated as such are subject to financial supervision by the EFA. The remaining Colleges are subject to Skills Funding Agency supervision.
6. The YPLA has been dissolved and its responsibilities transferred to the Education Funding Agency (EFA) from 1 April 2012. The EFA is an executive agency of the Department for Education. Addresses for the submission of financial plans will be communicated to Sixth Form Colleges and published on the EFA's website in due course.

Revisions to Accounting or Auditing Guidance

7. All extant accounting standards that are relevant to the sector have been included within this Handbook as appropriate. For completeness this includes all standards up to and including:
 - FRS 30 Heritage Assets
 - UITF Abstract 48 *Accounting Implications of the replacement of the retail prices index with the consumer prices index for retirement benefits*
 - FRED 48 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

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Documents to be Submitted

8. The following should be submitted to the responsible funding body no later than 31 December 2012. For FE Colleges this will be the Skills Funding Agency and for Sixth Form Colleges, the EFA:
 - audited financial statements (including the regularity audit opinion) of the College and its subsidiaries (where applicable) for the year ending 31 July 2012 (electronic copy of signed accounts if possible)
 - finance record for the year ending 31 July 2012 signed by the Principal or Chief Executive of the College (electronic copies for signed version and unsigned Excel version)
 - financial statements auditor's management letter, including the College's response (electronic version only)
 - Annual Internal Audit Report (electronic version only)
9. The funding bodies **do not** require colleges to submit hard (paper) copies of any of the above documents.
10. Where the College is subject to the individualised learner record (ILR) audit regime, the return date for the financial statements and finance record is also 31 December 2012.
11. Financial statements auditors are reminded that where they are unable to express an unqualified opinion on the College's financial statements, they should immediately communicate this to the Principal, the Chair of the Corporation and the Chair of the Audit Committee. They should also inform the appropriate funding body. Auditors of general FE Colleges should contact the Director of Provider Finance at the Skills Funding Agency and the equivalent at the EFA.
12. Electronic copies for the year ending 31 July 2012 should be submitted to the responsible funding body via e-mail at the address shown below no later than 31 December 2012:

Skills Funding Agency: pfm@skillsfundingagency.bis.gov.uk

EFA: externalassurance.EFA@education.gsi.gov.uk.

Guidance

13. Colleges with queries on how to apply this guidance on accounting policies to the particular circumstances of their own College may wish to consult their financial statements auditors or the appropriate funding body.

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Approval of Reports and Financial Statements

14. The reports and financial statements must be approved by the Corporation. They should be signed and dated as follows.
- The members' report should be signed and dated by the Chair of Governors on behalf of the Corporation.
 - The balance sheet(s) should be signed and dated by the Principal and one other member of the Corporation, usually the Chair of Governors; the director of finance is not required to sign it (them).
 - The Statement of the Responsibilities of the Members of the Corporation should be signed and dated by the Chair of Governors.
 - The Corporate Governance and Internal Control statement should be signed and dated by the Chair of Governors and the Principal.
15. The above items should normally be signed on the same date. They **should** also be signed on or very shortly before the date on which the College's financial statements auditors sign and date their audit report.

2: Updates to the Accounts Direction Handbook

16. The Handbook will only be re- issued to Colleges when **substantial** changes have occurred since its last publication. Latest versions of the Handbook will be published on:

<http://skillsfundingagency.bis.gov.uk/providers/finance/financialmanagement/financialmanagement/accountsdirection/>

(Note this guidance will be updated to include a link to the EFA website page when this becomes available. This will be part of the DfE website at <http://www.education.gov.uk/> though).

and the AoC will publish at:

<http://www.aoc.co.uk/en/policy-and-advice/funding-and-finance-pensions/finance-directors/benchmarking-accounts-direction.cfm>

When the Handbook undergoes a substantial update Colleges will be notified to visit the websites and download the latest versions.

17. Any future amendments to the Handbook will be tracked and an audit trail of the changes provided.

3: Other Guidance

Arrangements for the adjustment to payments against Funding Agreements

Guidance for providers on how to make Skills Funding Agency claims for 2011/12 is set out in [Adult Skills Budget ILR Funding Claims and Audit Returns 2011/12](#) and is available on the Agency's website. This should be read in conjunction with [Update](#) which is produced by the Agency and is a weekly round up of business critical information and news for the sector.

Adult Skills Budget

18. The Agency will balance the new freedoms for Colleges against the need to ensure that underperformance is fully recovered to make the best use of public funds.
19. At the date of publication of this Handbook, it is the intention that Colleges whose final underperformance exceeds 3% of the cash allocation will be subject to claw-back for any underperformance beyond the 3% tolerance threshold.
20. In 2011/12 where a College falls short of its funding agreement (measured by the Adult Skills Budget), funding will be recovered from January 2013 based on the Final Funding claim. In addition, the Agency may also adjust a College's 2012/13 allocation, if the under-delivery was not included in the College's mid-year forecast of performance for the 2011/12 year and was not therefore reflected in the 2012/13 allocation.

16-18 Learner-responsive funding

21. Colleges are the recipients of grant in aid funding and as such are *not* subject to in year contract adjustments for 16 -18 learner responsive funding.

Deadlines

22. The Skills Funding Agency expects all providers receiving an Adult Skills budget to comply with the deadline for all returns set out in Table 2 below.
23. In order to meet the returns timetable set out in Table 2, Colleges must ensure that their final funding claims and final ILR data are shared with auditors in time for them to be able to meet the return timetable.

Table 2: Deadlines for returns

| Funding model | Deadlines for returns |
|------------------------|--|
| Mid year funding claim | 6 February 2012 |
| Year end funding claim | 3 September 2012 |
| Final Claim | 16 November 2012 |
| Final Audit reports | As specified by the responsible funding bodies on an individual provider basis. Where requested, all audit |

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| | |
|--|---|
| | reports on individual funding claim returns must meet the claim return deadlines set out above. |
|--|---|

Accounting treatment for adjustments to payments under the Adult Skills Budget in the 2011/12 financial statements

24. As noted in paragraph 19 above, at the date of publication of this Handbook, it is the intention that Colleges whose final underperformance exceeds 3% of the cash allocation for the Adult Skills Budget will be subject to claw-back for **any** underperformance beyond the 3% tolerance threshold. Consequently, where Colleges within the Adult Skills Budget have not achieved their funding allocation but have achieved 97% or more of that allocation, the expectation is that they will recognise 100% of their allocation in their financial statements.
25. Colleges expecting to achieve below 97% of their planned activity would be expected to agree with the Agency the return of funds not otherwise adjusted to bring them to the 97% threshold. In this situation the Agency would expect that the 3% tolerance should be recognised as income in the accounts, the excess over that tolerance should be profiled for repayment January 2013 based on the final funding claim.
26. Any reduction in the College's (revised) 2011/12 recurrent allocation made after 31 July 2012 should be shown as a creditor due within one year in the College's 2011/12 financial statements.
27. Similarly, in the event that a College has amounts agreed for growth funding under the above guidelines, this would be shown as accrued income at that date.

Audit Opinion 2011/12

28. The 2011/12 "true and fair" audit opinion can be in Chapter 4 of this guidance, along with the regularity audit opinion.
29. Where the true and fair audit opinion is included on the College's website, the College should ensure that the statement of Governing Body's responsibilities clearly:
 - states the Governing Body's responsibility for the maintenance and integrity of the website
 - refers to the fact that uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.
30. Where the College decides not to update the statement of Governing Body's responsibilities for the above, then it should ensure that the true and fair audit opinion shown on the website includes the following words:

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The maintenance and integrity of the [name of college] website is the responsibility of the Governing Body of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern and Impairment Reviews

31. Where Colleges and/or their financial statements auditors have concerns about the appropriateness of the value of assets or the use of the going-concern basis for the preparation of accounts, they should contact the appropriate funding body.

Chapter 2: The Development of Accounting Policies for the Further Education Sector

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2007 Statement of Recommended Practice: Accounting for Further and Higher Education

- 2.1 For all accounting periods commencing on or after 1 August 1999 all Colleges have had to prepare their financial statements in accordance with the requirements of the *Statement of Recommended Practice: Accounting for Further and Higher Education* (the SORP). The SORP was revised in 2003 and 2007. ***The 2007 SORP is the primary document to be followed by Colleges and that in accordance with FRS 18.58, any departure from the provisions of the SORP should be explained in the financial statements.*** For ease of reference, a link to the SORP is provided in this Handbook at Chapter 3.
- 2.2 The SORP is intended to apply to all Colleges, including voluntary aided sixth-form colleges, voluntary controlled sixth-form colleges and specialist designated institutions. Where these bodies are constituted as companies limited by guarantee they should follow the SORP with any additional disclosures required to comply with the Companies Act 2006.
- 2.3 As the FE and higher education (HE) sectors have special financial and reporting issues that are different from other organisations that have charitable status, the Further and Higher Education SORP takes precedence over the Charities SORP. Where a College is a separate registered charity and seeks clarification on the basis on which to prepare its accounts, then it should discuss its position with its financial statements auditors and the appropriate funding body.
- 2.4 The Accounting Standards Board (ASB) wishes to see the continuance of a high-quality SORP for the further and higher education sectors. To meet this objective, the LSC agreed the following with the HE/FE SORP Board.
- The accounts direction for Colleges will be published annually by the funding bodies and ensure that all relevant institutions in the further education sectors prepare financial statements on a comparable and consistent basis.
 - Additional disclosure requirements, such as corporate governance statements, are issued by individual funding councils.

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Articles of Government

- 2.5 The funding bodies derive their powers to set accounts direction to Colleges under paragraph 22 of Schedule 2 (Articles of Government) of the Further Education Corporations (former Further Education Colleges) (Replacement of Instruments and Articles of Government) Order 2007. This states the following:

22 (1) The Corporation shall –

(a) keep proper accounts and proper records in relation to the accounts; and

(b) prepare in respect of each financial year of the Corporation a statement of accounts.

(2) The statement shall –

(a) give a true and fair account of the state of the Corporation's affairs at the end of the financial year and of its income and expenditure in the financial year; and

(b) comply with any directions given by the LSC as to the information to be contained in it, the manner in which the information is to be presented, the methods and principles according to which it is to be prepared and the time and manner of publication.

- 2.6 Colleges should note that the Instruments and Articles of Government will be updated from 1st April 2012 following the implementation of the Education Act 2011. The changes made apply equally to both GFE Colleges and Sixth Colleges.

Preparation of Financial Statements for Audit

- 2.7 It is a duty of the members of the Corporation to present audited financial statements to the responsible funding body by the relevant date (for Colleges with a 31 July year or period end this will normally be 31 December).
- 2.8 Therefore, it will be necessary for the College to consult with its financial statements auditor and where applicable the funding auditor and plan resources to achieve the requisite timetable.

International Financial Reporting Standards (IFRS)

- 2.9 The Accounting Standards Board (ASB) of the Financial Reporting Council published on the 30th January 2012, financial reporting exposure drafts (FREDs) 46 to 48 setting out revised proposals for the future of financial reporting in the UK and Republic of Ireland. The exposure drafts are as follows:

- FRED 46 'Application of Financial Reporting Requirements' (draft FRS 100);
- FRED 47 'Reduced Disclosure Framework' (draft FRS 101); and
- FRED 48 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (draft FRS 102).

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2.10 The revised proposals recommend:

- a) **replacing all current accounting standards with a single FRS.** The ASB is proposing to use the IFRS for SMEs, as issued by the International Accounting Standards Board, as the base for FRED 48.
- b) **introduction of a reduced disclosure framework.** The framework permits certain entities (mainly subsidiaries) to apply the measurement and recognition requirements of EU-adopted IFRS with reduced disclosures.
- c) **retaining the financial reporting standard for smaller entities (FRSSE).**

2.11 As a consequence of feedback to its previous exposure drafts the ASB is proposing the following major changes:

- a) **eliminate the tier system;** The ASB will not proceed with the tier system previously proposed (and outlined in the 2010/11 Accounts Direction Handbook).
- b) **introduce accounting treatments permitted under current accounting standards;** options to revalue land and buildings, capitalise borrowing costs or carry forward certain development expenses have been incorporated into the FRED 48. The ASB is proposing to retain accounting treatments permitted under current accounting standards and international accounting standards rather than its previous policy to make minimal changes to the IFRS for SMEs.

2.12 The ASB is proposing that the revised proposals should take effect from for accounting periods beginning on or after 1 January 2015 with earlier adoption permitted. This would mean that Colleges would expect to produce full accounts under the new proposals for 2015/16. Colleges should note that early adoption is restricted for public benefit entities who must first await the release of the appropriate SORP.

2.13 There will be a transition process for the adoption of the revised proposals and this will be set out closer to the time.

**Chapter Three: Statement of Recommended Practice:
Accounting for Further and Higher Education**

Copies can be obtained from the Universities UK website at:

<http://www.universitiesuk.ac.uk/Publications/Pages/Publication-274.aspx>

Chapter 4: Casterbridge College Model Financial Statements

These model financial statements are illustrative of the disclosures required by the 2007 SORP but will not cover all possible eventualities. Colleges should refer to the SORP and in particular Appendix 2 for the full range of disclosures and presentation needs set out there in.]

CASTERBRIDGE COLLEGE

Report and Financial Statements

for the year ended 31 July 2012

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[THE FOLLOWING TEXT IS ILLUSTRATIVE ONLY AND THE HEADINGS USED ARE NOT EXHAUSTIVE. THE COLLEGE SHOULD PREPARE A STATEMENT THAT DESCRIBES ITS OWN POSITION WHILST COMPLYING WITH THE REQUIREMENTS OF THE 2007 HE AND FE SORP]

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2012.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Casterbridge College. The College is an exempt charity for the purposes of the Charities Act 2011.

The Corporation was incorporated as Casterbridge College of Arts and Technology. On 1 October 2001, the Secretary of State granted consent to the Corporation to change the College's name to Casterbridge College. The Corporation believes that the new name represents the broader activities of the College.

Mission

Governors reviewed the College's mission during 2009/10 and in January 2011 adopted a revised mission statement as follows:

"Our mission is to lead in meeting the needs for accessible, responsive, high-quality education training and complementary services in the community of Casterbridge and its surroundings."

Implementation of strategic plan

In July 2010 the College adopted a strategic plan for the period 1 August 2010 to 31 July 2013. This strategic plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are to:

- achieve a student body of 8,200 full-time equivalents (FTEs) by 31 July 2013 funded by the funding bodies
- improve student retention to 92 per cent by 31 July 2013
- achieve a grade 2 for all areas in the 2011 College inspection
- retain the Investors in People award
- achieve space utilisation of 5 m² per FTE by 31 July 2013
- maintain the financial viability of the College by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5 per cent of income.

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The College is on target for achieving these objectives.

The College's specific objectives for 2011/12 and achievement of those objectives is addressed below.

- the College achieved 8,060 SLN learners funded by the funding bodies against a target of 8,200 SLN learners (see below).
- on 15 January 2012 the Corporation resolved to merge with Wessex College of Agriculture; this merger was achieved on 1 August 2012.
- increased collaboration with Casterbridge Schools, particularly in relation to the expansion of our work-related learning offer for 14–16 year olds.
- establishment of a successful Employer Training scheme delivering training in the workplace on demand.
- to improve student retention to 90 per cent – this was achieved.
- to maintain the financial viability of the College by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5 per cent of income – this was achieved.
- increased numbers of teachers undertook teacher training and gained qualifications.
- a series of successful Transforming Teaching projects was established.

Financial objectives

The College's financial objectives are:

- to achieve an annual operating surplus
- to pursue alternative sources of funding, on a selective basis, consistent with the College's core competencies, and the need for a financial contribution to the College's overall finances
- to generate sufficient levels of income to support the asset base of the College
- to further improve the College's shorter term liquidity
- to fund continued capital investment.

A series of performance indicators have been agreed to monitor the successful implementation of the policies.

Performance indicators

FE Choices (formerly the "Framework for Excellence") has four key performance indicators:

- Success rates
- Learner destinations

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- Satisfaction survey (formerly “learner views”) [GFES only]
- Satisfaction survey (formerly “employer views”) [GFES only]

The College is committed to observing the importance of the measures and indicators and is monitoring these through the completion of the annual Finance Record for the Skills Funding Agency/Education Funding Agency (“EFA”). The current rating of Good is considered an acceptable outcome.

FINANCIAL POSITION

Financial results

The College generated an operating deficit in the year of £9,770,000 (2010/11 – surplus of £567,000). The result in 2011/12 is stated after accounting for the disposal of the Church Street annexe.

The College has accumulated reserves of £17,359,000 and cash balances of £8,512,000. The College wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.

Tangible fixed asset additions during the year amounted to £16,584,000. This was split between land and buildings acquired of £12,981,000 and equipment purchased of £3,603,000. In the main, this related to the new building on main site. The building cost £12.1 million and replaces a number of poor-quality temporary classrooms. The building includes a learning resource centre, which has enabled the College to change its teaching methods, to make a greater use of information technology, and to become more efficient. The building was opened on 10 October 2012 by the Secretary of State.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2011/12 the funding bodies provided 52% of the College’s total income.

The College has two subsidiary companies, ABC Limited and XYZ Limited. The principal activity of ABC Limited is the rental of property, whilst XYZ Limited carries out training of employees on behalf of employers. Any surpluses generated by the subsidiaries are transferred to the College under deed of covenant. In the current year, the surpluses generated were £18,000 and £12,000 for ABC Limited and XYZ Limited respectively.

Treasury policies and objectives

Treasury management is the management of the College’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place.

Short term borrowing for temporary revenue purposes is authorised by the Principal. Such arrangements are restricted by limits in the College’s Financial Memorandum previously agreed with the LSC and subsequently transferred to the [Skills Funding Agency/EFA]. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

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Cash flows

At £1.46 million (2010/11 £0.77 million), operating cash in flow was reasonably strong. The net cashflow resulted from the receipt of a new loan of £4.5 million and the management of liquid resources of £1.85 million.

Liquidity

During the year the College took out a secured loan of £4.5 million in order to help finance a new building on its main site. The balance of the £12.1 million capital cost was met by use of the disposal proceeds from the sale of the College's Church Street annexe for £7.5 million.

The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2011/12 the College has delivered activity that has produced £20,783,000 in funding body main allocation funding (2010/11 – £20,850,000). The College had approximately 8,500 funded and 2,000 non-funded students.

Student achievements

Students continue to prosper at the College. Success rates rose again in 2010/11 from 2009/10 from 66 per cent to 72 per cent and, while it is too early to make predictions about success rates for 2011/12, there is no reason to expect the upwards trend of the last few years to be reversed.

Curriculum developments

The College has a national reputation for curriculum innovation and change. It has introduced new courses in many areas of the curriculum in order to meet student needs better. A particular strength is in making students ready for the next stage in their lives.

Many of our students have low levels of prior educational achievement. The College is growing the range of courses aimed at students who are returning to education. These include **[give specific details of major programmes]**.

Courses have been designed to ensure students are able to move securely into the labour market. The major curriculum initiative this year is a partnership with Get-it Right Consultants Limited to develop a range of Skills for Industry courses in IT, Retail, Hospitality and Public Administration. The first two have already been piloted, while the courses in Hospitality and Public Administration will be run for the first time next year.

Other courses prepare students for university. These include:

- Access courses for adults

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- Close liaison with a range of universities including Red Brick University and the Wessex School of Economics
- Development of Level 4 courses including HNCs and degrees where they clearly fit the needs of our students.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2011 to 31 July 2012, the College paid 96.4 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Post-balance sheet events

On 1 August 2012 the College merged its activities with those of Wessex College of Agriculture.

Future developments

With regard to the improved capacity provided by the new building on main site, the College seeks to significantly increase student numbers over the next three years.

The College aims to significantly increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the [Skills Funding Agency/EFA] and is seeking opportunities particularly in the areas where the College currently performs well such as HEFCE and European Commission grants.

[Consider need for specific paragraphs on appropriateness of “going concern” assumption having due regard to the Sharman Panel of Enquiry and its draft recommendations including encouraging going concern reporting to focus on the longer term and to be more qualitative and less standardised]

RESOURCES:

The College has various resources that it can deploy in pursuit of its strategic objectives.

Tangible resources include the main college site, a new £12.1 million building following the sale of Church Street annexe and £1.5 million held in current assets following the sale of the Westwick site, which is to be reinvested.

Financial

The College has £98 million of net assets (including £1.5 million pension liability) and long term debt of £4.5 million.

People

The College employs 1,227 people (expressed as full time equivalents), of whom 787 are teaching staff.

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Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and external relationships.

PRINCIPAL RISKS AND UNCERTAINTIES:

The College has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect the College's assets and reputation.

Based on the strategic plan, the Risk Management Group undertakes a comprehensive review of the risks to which the College is exposed. They identify systems and procedures, including specific preventable actions which should mitigate any potential impact on the College. The internal controls are then implemented and the subsequent year's appraisal will review their effectiveness and progress against risk mitigation actions. In addition to the annual review, the Risk Management Group will also consider any risks which may arise as a result of a new area of work being undertaken by the College.

A risk register is maintained at the College level which is reviewed at least annually by the Audit Committee and more frequently where necessary. The risk register identifies the key risks, the likelihood of those risks occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system.

This is supported by a risk management training programme to raise awareness of risk throughout the College.

Outlined below is a description of the principal risk factors that may affect the College. Not all the factors are within the College's control. Other factors besides those listed below may also adversely affect the College.

1. Government funding

The College has considerable reliance on continued government funding through the further education sector funding bodies and through HEFCE. In 2011/12, 77% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

The College is aware of several issues which may impact on future funding,

- [define issues].

- [etc]

This risk is mitigated in a number of ways: [examples below – tailor to suit own circumstances; own risk register entries etc]

- [Funding is derived through a number of direct and indirect contractual arrangements

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- By ensuring the College is rigorous in delivering high quality education and training
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies
- Ensuring the College is focused on those priority sectors which will continue to benefit from public funding.
- Regular dialogue with funding bodies]

2. Tuition fee policy

Ministers have confirmed that the fee assumption remains at 50% in 2011/12. In line with the majority of other colleges, Casterbridge College will seek to increase tuition fees in accordance with the fee assumptions. The price elasticity of adult learning for the College is not yet fully understood. The risk for the College is that demand falls off as fees increased. This will impact on the growth strategy of the College

This risk is mitigated in a number of ways:

- By ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses as prices change

3. Maintain adequate funding of pension liabilities

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 17.

[Colleges may want to consider other examples such as Coalition Government policy changes and increased uncertainty over income streams; overseas students; demographic change; accommodation strategy, etc according to specific circumstances. The College's risk register should be a useful source of information here]

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Casterbridge College has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Government Offices/ Regional Development Agencies/LEPs;

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- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.

The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings.

Equal opportunities and employment of disabled persons

Casterbridge College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.

The College's Equal Opportunities Policy, including its Race Relations and Transgender Policies, is published on the College's Internet site.

The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. An equalities plan is published each year and monitored by managers and governors.

Disability statement

The College seeks to achieve the objectives set down in the Disability Discrimination Act 1995 as amended by the Special Education Needs and Disability Acts 2001 and 2005.

- a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2008/09, and the results of this formed the basis of funding capital projects aimed at improving access.
- b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
- c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
- d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
- e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.

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- f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
- g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to auditors

The members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Approved by order of the members of the Corporation on and signed on its behalf by:

[Name to be typed in]

[Chair]

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Professional advisers

Financial statement and regularity auditors:

Yates Umbleby LLP

Cathedral Close

Greshambury

Internal auditors:

Gradgrind & Gradgrind

Stone Lodge

Facts Street

Coketown

Bankers:

Nickleby's Bank

1 Golden Square

London

Solicitors:

Tulkinghorn & Co

Cook's Court

Cursitor Street

London

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Statement of Corporate Governance and Internal Control

The College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the UK Corporate Governance Code (“the Code”) issued by the FRC in June 2010. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2012. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The English Colleges’ Foundation Code of Governance issued by the Association of Colleges in December 2011, which it formally adopted in [date 2012]. **[Not mandatory - Colleges should only include this statement if they have adopted the Code and if they wish to include their compliance with it as an important element of their Corporate Governance and Internal Controls]**

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in the table below.

| | Date of Appointment | Term of office | Date of resignation | Status of appointment | Committees served |
|-------------------|--|----------------|---------------------|--------------------------|---|
| Ms C Linton | 30 Sept 2008; reappointed 29 Sept 2012 | 3 years | | Independent member | Chair: Corporation; Chair: Remuneration; finance and general purposes; search |
| Mr M Henchard | – | | | Principal | |
| Ms M Bold | 2 Sept 2009 | 4 years | | Independent member | Chair: finance and general purposes |
| Mr D Farfrae | 2 Sept 2009 | 4 years | | Independent member | Chair: audit |
| Ms U Meah | 2 Sept 2009 | 4 years | | Independent member | Finance and general purposes |
| Ms B Sharp | 30 Sept 2011 | 3 years | | Community representative | Finance and general purposes; search |
| Mr A Child | 30 Sept 2011 | 4 years | | Co-opted member | Audit |
| Mr T Tulliver | 1 Oct 2011 | 1 year | 1 July 2012 | Student member | |
| Capt. F Wentworth | 4 Sept 2011 | 4 years | | Independent member | Remuneration |
| Mr S Marner | 4 Sept 2011 | 4 years | | Independent member | Audit |
| Ms A Sedley | 1 Oct 2011 | 1 year | | Student member | |
| Mr M Choakumchild | 30 Sept 2011 | 3 years | | Staff member | |

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| | Date of Appointment | Term of office | Date of resignation | Status of appointment | Committees served |
|--|----------------------------|-----------------------|----------------------------|------------------------------|---|
| Ms A Elliott | 2 Dec 2011 | 3 years | | Co-opted member | Remuneration Chair: search committee |
| Mr P Finn | 2 Dec 2011 | 3 years | | Independent member | Finance and general purposes |
| Mr C Lal | 1 Oct 2011 | 3 years | | Independent member | Finance and general purposes |
| Mr F Karamazov | 1 Oct 2011 | 3 years | | Independent member | Finance and general purposes |
| Mr M Gazebee, a retired solicitor, acts as Clerk to the Corporation. | | | | | |

It is the Corporation's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Corporation is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Corporation meets each term.

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are **[finance and general purposes, remuneration, search and audit- amend as appropriate to the College]**. Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Casterbridge College

Corn Street

Casterbridge

Wessex

CS1 1AB

The Clerk to the Corporation maintains a register of financial and personal interests of the governors. The register is available for inspection at the above address.

All governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Corporation, who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Corporation as a whole.

Formal agendas, papers and reports are supplied to governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad hoc basis.

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The Corporation has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Corporation considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

Appointments to the Corporation

Any new appointments to the Corporation are a matter for the consideration of the Corporation as a whole. The Corporation has a search committee, consisting of three members of the Corporation, which is responsible for the selection and nomination of any new member for the Corporation's consideration. The Corporation is responsible for ensuring that appropriate training is provided as required.

Members of the Corporation are appointed for a term of office not exceeding four years.

Remuneration committee

Throughout the year ending 31 July 2012 the College's Remuneration Committee comprised three members of the Corporation. The Committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

Details of remuneration for the year ended 31 July 2012 are set out in note 7 to the financial statements.

Audit committee

The Audit Committee comprises three members of the Corporation (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Corporation.

The Audit Committee meets on a termly basis and provides a forum for reporting by the College's internal, regularity and financial statements auditors, who have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main FE funding bodies as they affect the College's business.

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

[Describe any other relevant committees]

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Internal control

Scope of responsibility

The Corporation is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which [he / she] is personally responsible, in accordance with the responsibilities assigned to [him / her] in the Financial Memorandum between Casterbridge College and the funding bodies. [He / She] is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Casterbridge College for the year ended 31 July 2012 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2012 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts

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- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Casterbridge College has an internal audit service, which operates in accordance with the requirements of the LSC's *Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. [His / Her] review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework
- comments made by the College's financial statements auditors, the regularity auditors, the appointed funding auditors (for colleges subject to funding audit) in their management letters and other reports.

The Principal has been advised on the implications of the result of [his / her] review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor [and risk committee, if appropriate], and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2012 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2012 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2012.

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Going concern

After making appropriate enquiries, the Corporation considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Corporation on.....and signed on its behalf by:

[Signed]

[Signed]

[Name to be typed]

[Name to be typed]

[Chair]

[Principal]

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Statement of Responsibilities of the Members of the Corporation

The members of the Corporation are required to present audited financial statements for each financial year.

Within the terms and conditions of the Financial Memorandum between the Skills Funding Agency / EFA and the Corporation of the College, the Corporation, through its Principal, is required to prepare financial statements for each financial year in accordance with the 2007 *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions* and with the Accounts Direction issued jointly by the Skills Funding Agency and the Young Peoples Learning Agency, and which give a true and fair view of the state of affairs of the College and the result for that year.

In preparing the financial statements, the Corporation is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

The Corporation is also required to prepare a Members Report **[or Operating and Financial Review – use appropriate terminology]** which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

The Corporation is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the College, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the Corporation of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the [the Skills Funding Agency / EFA] are used only in accordance with the Financial Memorandum with the [the Skills Funding Agency / EFA] and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition,

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members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the [the Skills Funding Agency / EFA] are not put at risk.

Approved by order of the members of the Corporation on..... and signed on its behalf by:

[Name to be typed]

[Chair]

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Independent auditor's report to the [Corporation/Governing Body]¹ of Casterbridge College²

We have audited the Group and College financial statements ("the financial statements") of ABC College for the year ended 31 July 2011 set out on pages X to Y. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the [Corporation/Governing Body], as a body, in accordance with [Article 22 of the College's Articles of Government]³. Our audit work has been undertaken so that we might state to the [Corporation/Governing Body], as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the [Corporation/Governing Body], as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the [Corporation/Governing Body] of Casterbridge College and Auditor

As explained more fully in the Statement of the [Corporation/Governing Body]'s responsibilities set out on page [], the [Corporation/Governing Body] is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the [Group's and the] College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the [Corporation/Governing Body]; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the [describe Annual Report] to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

¹ Addressee will depend on the naming conventions used in the Instrument and Articles of Government and will differ between General FE Colleges, Sixth Form Colleges, Specialist Designated Colleges and those colleges that are companies limited by guarantee

² This report format assumes that the College is NOT incorporated. If this is not the case, reference should be made to the Companies Act 2006 specific requirements including the need to report by exception in line with the guidance given in ISA 700 *The Auditor's Report on Financial Statements* and the examples in APB Bulletin 02/2010 (revised)

³ Check the specific reference for the institution concerned as this may differ from the reference for FE Colleges shown above

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Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of [the Groups' and of] the College's affairs as at 31 July 2011 and of the [Group's/College's] surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with the 2007 Statement of Recommended Practice – Accounting for Further and Higher Education Institutions⁴

Opinion on other matters prescribed by the revised Joint Audit Code of Practice (Part 1) issued jointly by the Skills Funding Agency and the EFA and the Audit Code of Practice issued by the Learning and Skills Council⁵

In our opinion:

- proper accounting records have been kept, and
- the financial statements are in agreement with the accounting records.⁶

[Audit firm signature in accordance with individual processes]

[Date]

⁴ There is no specific requirement for the audit opinion to include references to compliance with the Accounts Direction though Colleges are required to comply with it in the preparation of their accounts

⁵ At the current time (September 2011) the revised JACOP Part 1 has been issued and is applicable from 1st April 2010 but until Part 2 is issued, the requirements of the existing Audit Code of Practice found in LSC Circular 04/07 continue to apply

⁶ The ACoP currently makes reference (Paragraph 69 of Supplement A to Circular 04/07) to a requirement for the audit opinion to include a "report on the FE College's compliance with the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange". The funding bodies have confirmed that this does not mean specific opinions should be included within the financial statements audit report though auditors may wish to consider the impact on the Regularity Audit opinion if they become aware of any compliance issues.

Independent Auditor's Report on Regularity to the Corporation of Casterbridge College ('the Corporation') and the [Chief Executive of Skills Funding/Education Funding Agency]

In accordance with the terms of our engagement letter and further to the requirements of the [Chief Executive of Skills Funding/Education Funding Agency], we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of Casterbridge College ('the College') for the year ended 31 July 2012 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to the Corporation and the [Chief Executive of Skills Funding/ Education Funding Agency]. Our review work has been undertaken so that we might state to the Corporation and the [Chief Executive of Skills Funding/ Education Funding Agency], those matters we are required to state to it in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the [Chief Executive of Skills Funding/ Education Funding Agency], for our review work, for this report, or for the opinion we have formed.

Respective responsibilities of the Members of the Corporation of Casterbridge College and Auditors

The College's Corporation is responsible, under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations, for ensuring that expenditure and income are applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

We conducted our review in accordance with the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. Our review includes examination, on a test basis, of evidence relevant to the regularity and propriety of the College's income and expenditure.

Independent Auditors' Report on Regularity to the Corporation of Casterbridge College ('the Corporation') and the [Chief Executive of Skills Funding/ Education Funding Agency] (continued)

Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2012 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Yates Umbleby LLP
Chartered Accountants

Date

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Consolidated Income and Expenditure Account

| | Notes | 2012 £'000 | 2011 £'000 |
|---|-------|----------------|---------------|
| INCOME | | | |
| Funding body grants | 2 | 32,944 | 36,921 |
| Tuition fees and education contracts | 3 | 4,661 | 4,944 |
| Research grants and contracts | 4 | 228 | 303 |
| Other income | | 2,550 | 1,875 |
| Endowment and investment income | 5 | 2,256 | 2,089 |
| Total income | | 42,639 | 46,132 |
| EXPENDITURE | | | |
| Staff costs | 6 | 26,006 | 28,875 |
| Exceptional restructuring costs | 6 | 1,551 | 0 |
| Other operating expenses | 8 | 11,418 | 13,557 |
| Depreciation | 12 | 4,038 | 2,802 |
| Interest and other finance costs | 9 | 108 | 0 |
| Total expenditure | | 43,121 | 45,234 |
| (Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax | | (482) | 898 |
| Loss on disposal of assets | 12 | (9,420) | 0 |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation, and exceptional items but before tax | | (9,902) | 898 |
| Taxation | 10 | (12) | (12) |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation exceptional items and tax | 11 | (9,914) | 886 |
| Surplus/(deficit) for the year transferred from accumulated income in endowment funds | | 50 | 0 |
| (Deficit)/surplus for the year retained within general reserves | | (9,864) | 886 |

The income and expenditure account is in respect of continuing activities.

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Consolidated Statement of Historical Cost Surpluses and Deficits

| | Notes | 2012 £'000 | 2011 £'000 |
|--|-------|----------------|---------------|
| (Deficit)/surplus on continuing operations before taxation | | (9,902) | 898 |
| Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount | 22 | 1,416 | 1,431 |
| Historical cost (deficit)/surplus for the year before taxation | | (8,434) | 2,329 |
| Historical cost (deficit)/surplus for the year after taxation | | (8,422) | 2,317 |

Consolidated Statement of Total Recognised Gains and Losses

| | Notes | 2012 | 2011 |
|--|-------|----------------|----------------|
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposals of assets and tax | | (9,914) | 886 |
| Unrealised surplus on revaluation of fixed assets | 12 | 5,100 | 0 |
| Appreciation of endowment asset investments | 21 | 2,200 | 0 |
| Actuarial gain/(loss) in respect of pension scheme | 32 | (2,806) | (2,416) |
| New endowments | 21 | 100 | 0 |
| Total recognised losses since last report | | (5,320) | (1,530) |
| Reconciliation | | | |
| Opening reserves and endowments | | 94,119 | 95,649 |
| Total recognised losses for the year | | (5,320) | (1,530) |
| Closing reserves and endowments | | 88,799 | 94,119 |

[Colleges may want to consider including the Statement of Historical Cost Surpluses and Deficits at the foot of the Income and Expenditure Account as an alternative presentation.]

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Balance sheets as at 31 July

| | Notes | Group 2012 | College 2012 | Group 2011 | College 2011 |
|--|-----------|----------------|-----------------|----------------|-----------------|
| Fixed assets | | | | | |
| Tangible assets | 12 | 74,751 | 74,337 | 73,974 | 73,584 |
| Investments | 13 | 0 | 6 | 0 | 6 |
| Total fixed assets | | 74,751 | 74,343 | 73,974 | 73,590 |
| Endowment assets | 14 | 26,850 | 26,850 | 24,600 | 24,600 |
| Current assets | | | | | |
| Stocks | | 129 | 114 | 129 | 108 |
| Debtors | 15 | 1,170 | 1,116 | 1,290 | 1,317 |
| [Assets held for resale] | | | | | |
| Investments | | 6,000 | 6,000 | 7,500 | 7,500 |
| Cash at bank and in hand | | 2,512 | 2,512 | 585 | 585 |
| Total current assets | | 9,811 | 9,742 | 9,504 | 9,510 |
| Less: Creditors – amounts falling due within one year | 16 | (4,344) | (3,972) | (3,951) | (3,648) |
| Net current assets | | 5,467 | 5,770 | 5,553 | 5,862 |
| Total assets less current liabilities | | 107,068 | 106,963 | 104,127 | 104,052 |
| Less: Creditors – amounts falling due after more than one year | 17 | 4,401 | 4,401 | 162 | 162 |
| Less: Provisions for liabilities | 19 | 3,498 | 3,498 | 2,124 | 2,124 |
| Net assets excluding pension (liability)/asset | | 99,169 | 99,064 | 101,841 | 101,766 |
| Net pension (liability)/asset | 32 | (1,460) | (1,460) | 1,440 | 1,440 |
| NET ASSETS INCLUDING PENSION ASSET/(LIABILITY) | | 97,709 | 97,604 | 103,281 | 103,206 |
| Deferred capital grants | | | | | |
| | 20 | 8,910 | 8,910 | 9,162 | 9,162 |
| Expendable endowments | | | | | |
| | 21 | 13,010 | 13,010 | 12,000 | 12,000 |
| Permanent endowments | | | | | |
| | 21 | 13,840 | 13,840 | 12,600 | 12,600 |
| Total endowments | | 26,850 | 26,850 | 24,600 | 24,600 |
| Reserves | | | | | |
| Income and expenditure account excluding pension reserve | 23 | 17,359 | 17,254 | 8,793 | 8,718 |
| Pension reserve | 32 | (1,460) | (1,460) | 1,440 | 1,440 |
| Income and expenditure account including pension reserve | 23 | 15,899 | 15,794 | 10,233 | 10,158 |
| Revaluation reserve | 22 | 46,050 | 46,050 | 59,286 | 59,286 |
| Total reserves | | 61,949 | 61,844 | 69,519 | 69,444 |
| TOTAL FUNDS | | 97,709 | 97,604 | 103,281 | 103,206 |

The financial statements on pages [18 to 49] were approved by the Corporation on [insert date] and were signed on its behalf on that date by:

[Name to be typed in]

[Name to be typed in]

Chair

Principal

Version 1.6 May 2012

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Consolidated Cash Flow Statement

| | Notes | 2012 £'000 | 2011 £'000 |
|---|-----------|---------------|----------------|
| Cash inflow from operating activities | 24 | 1,461 | 774 |
| Returns on investments and servicing of finance | 25 | 1,895 | 1,437 |
| Taxation | 10 | (12) | (12) |
| Capital expenditure and financial investment | 26 | (7,731) | (6,363) |
| Management of liquid resources | 27 | 1,850 | 0 |
| Financing | 28 | 4,464 | (36) |
| | | <hr/> | <hr/> |
| Increase / (decrease) in cash in the year | 29 | 1,927 | (4,200) |
| | | <hr/> | <hr/> |
| Reconciliation of net cash flow to movement in net funds | | | |
| Increase/(decrease) in cash in the period | | 1,927 | (4,200) |
| Cash inflow from new secured loan | 28 | (4,500) | 0 |
| Cash inflow from liquid resources | 27 | (1,850) | 0 |
| Cash outflow from decrease in lease financing | 28 | 36 | 45 |
| | | <hr/> | <hr/> |
| Movement in net funds in the period | | (4,387) | (4,155) |
| Net funds at 1 August | | 10,587 | 14,742 |
| | | <hr/> | <hr/> |
| Net funds at 31 July | | 6,200 | 10,587 |
| | | <hr/> | <hr/> |

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Notes to the Accounts

1. Accounting policies

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the EFA in the 2011/12 Accounts Direction Handbook.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom Accounting Standards.

Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.

The College currently has £4.5m of loans outstanding with bankers on terms negotiated in 2008. Additionally there is £1m of uncommitted facility available for unconditional drawdown with all being secured by a fixed and floating charge on College assets. The terms of the existing agreement are for up to another 15 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future.

Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, ABC Limited and XYZ Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2012.

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Recognition of income

[For colleges subject to funding audit or assurance:]

The recurrent grant from the funding bodies is that receivable as determined by the results of the funding audit undertaken. The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account.

[For colleges not subject to funding audit or assurance:]

The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.

Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the Adult Skills Budget is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end, and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.

Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or the extent of the completion of the contract or service concerned.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the income and expenditure account to accumulated income within endowment funds.

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS).

Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 32, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore

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treated as a defined contribution scheme and the contributions recognised as they are paid each year.

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Enhanced Pensions

The actual cost of any enhanced ongoing pension to a former member of staff is paid by a college annually. An estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff is charged in full to the college's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using the enhanced pension spreadsheet provided by the funding bodies.

Tangible fixed assets

Land and buildings

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis. Building improvements made since incorporation are included in the balance sheet at cost. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these

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properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Assets under construction [if appropriate]

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

Buildings owned by third parties

Where the College enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, if practicable, a value is attributed to this benefit and capitalised, with a corresponding credit to deferred capital grants which are subsequently released to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the related asset(s).

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. Equipment inherited from the local education authority is included in the balance sheet at valuation.

Inherited equipment has been depreciated on a straight-line basis over its remaining useful economic life to the College of between one and three years from incorporation and is now fully depreciated. All other equipment is depreciated over its useful economic life as follows:

- technical equipment – 6 years on a straight-line basis
- motor vehicles – 4 years on a straight-line basis
- computer equipment – 4 years on a straight-line basis
- furniture, fixtures and fittings – 6 years on a straight-line basis.

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Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Investments and endowment assets

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Stocks

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial period with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such

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inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event. It is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support Funds [and – ***insert details of any other arrangements e.g. educational maintenance allowances, adult learning grants etc***]. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 38, except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.

[Colleges should only disclose those accounting policies that are material and relevant to their specific situation. The above accounting policies should therefore be tailored accordingly.]

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2 Funding body grants

| | 2012 | 2011 |
|---|---------------|---------------|
| | £'000 | £'000 |
| [Main funding body] recurrent grant | 20,783 | 27,716 |
| [Other funding body] recurrent grant | | |
| HEFCE Recurrent grant | 8,800 | 7,950 |
| [Main funding body] non recurrent grants | 1,343 | 794 |
| Other funding body non recurrent grants | | |
| Releases of deferred capital grants (note 20) | 1,881 | 461 |
| HE development grant | 137 | 0 |
| | <hr/> | <hr/> |
| Total | 32,944 | 36,921 |

The College is the lead partner in a consortium to deliver [describe income stream] in the Wessex region. The income shown above includes that earned by the College in its capacity both as a provider and as the consortium lead. All other income claimed from the [main funding body] and payable to consortium partners has been excluded from these accounts. Total income claimed in the year under this arrangement and the related payments to partners was as follows:

| | 2012 | 2011 |
|----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| [describe income stream] | 495 | 0 |
| Payments to non College partners | (150) | 0 |
| Payments to College partners | (295) | 0 |
| | <hr/> | <hr/> |
| Net income | 50 | 0 |

3 Tuition fees and education contracts

| | 2012 | 2011 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Tuition fees | 2,415 | 2,436 |
| Education contracts | 2,246 | 2,508 |
| | <hr/> | <hr/> |
| Total | 4,661 | 4,944 |
| Tuition fees funded by bursaries | | |

Included within the above amounts are tuition fees funded by bursaries of £xxx (2010/11 £xxx).

4 Research grants and contracts

| | 2012 | 2011 |
|----------------------------|--------------|--------------|
| | £'000 | £'000 |
| Research Council | 15 | 12 |
| UK-based charities | 0 | 0 |
| European Commission | 156 | 240 |
| Other grants and contracts | 57 | 51 |
| | <hr/> | <hr/> |
| Total | 228 | 303 |

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5 Endowment and investment income

| | 2012 | 2011 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Income from restricted endowment asset investments (note 21) | 500 | 594 |
| Income from unrestricted endowment asset investments (note 21) | 300 | 96 |
| Other investment income | 120 | 105 |
| Other interest receivable | 1,083 | 642 |
| | <hr/> | <hr/> |
| | 2,003 | 1,437 |
| Pension finance income (note 32) | 253 | 652 |
| | <hr/> | <hr/> |
| Total | 2,256 | 2,089 |
| | <hr/> <hr/> | <hr/> <hr/> |

6 Staff costs

The average number of persons (including senior post-holders) employed by the College during the year, described as full-time equivalents, was:

| | 2012 | 2011 |
|--------------------|--------------|--------------|
| | No. | No. |
| Teaching staff | 787 | 957 |
| Non teaching staff | 440 | 396 |
| | <hr/> | <hr/> |
| | 1,227 | 1,353 |
| | <hr/> <hr/> | <hr/> <hr/> |

Staff costs for the above persons

| | 2012 | 2011 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 21,729 | 25,116 |
| Social security costs | 1,431 | 1,773 |
| Other pension costs (including FRS 17 adjustments of £347,000 – 2011 £333,000) | 1,514 | 1,986 |
| | <hr/> | <hr/> |
| Payroll sub total | 24,674 | 28,875 |
| Contracted out staffing services | 1,332 | 0 |
| | <hr/> | <hr/> |
| | 26,006 | 28,875 |
| Exceptional restructuring costs | 1,551 | 0 |
| | <hr/> | <hr/> |
| Total Staff costs | 27,557 | 28,875 |
| | <hr/> <hr/> | <hr/> <hr/> |

The number of senior post-holders and other staff who received emoluments, including pension contributions and benefits in kind, in the following ranges was:

| | Senior post-holders | | Other staff | |
|--------------------|----------------------------|-------------|--------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | No. | No. | No. | No. |
| £60,001 to £70,000 | 0 | 0 | 0 | 0 |
| £70,001 to £80,000 | 2 | 1 | 0 | 0 |
| £80,001 to £90,000 | 1 | 1 | 0 | 0 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 3 | 2 | 0 | 0 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal and holders of the other senior posts whom the Governing Body has selected for the purposes of the articles of government of the College relating to the appointment and promotion of staff who are appointed by the Governing Body.

| | 2012 | 2011 |
|--|-------------|-------------|
| | No. | No. |
| The number of senior post-holders including the Principal was: | 3 | 3 |

Senior post-holders' emoluments are made up as follows:

| | 2012 | 2011 |
|-------------------------|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 187 | 178 |
| Benefits in kind | 9 | 8 |
| Pension contributions | 21 | 19 |
| Total emoluments | 217 | 205 |

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder)

| | 2012 | 2011 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Salaries | 74 | 71 |
| Benefits in kind | 5 | 4 |
| | <u>79</u> | <u>75</u> |
| Pension contributions | <u>5</u> | <u>5</u> |

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers' Pension Scheme and are paid at the same rate as for other employees.

Compensation for loss of office paid to a former senior post-holder

| | 2012 | 2011 |
|--|-------------|-------------|
| | £ | £ |
| Compensation paid to the former post-holder | 8,572 | 0 |
| Estimated value of other benefits, including provisions for pension benefits | 2,829 | 0 |

The estimated value of other benefits has been calculated in accordance with Financial Reporting Standard 17. The severance payment was approved by the College's remuneration committee.

The members of the Corporation other than the Principal and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

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8 Other operating expenses

| | 2012 | 2011 |
|--------------------|---------------|---------------|
| | £'000 | £'000 |
| Teaching costs | 3,369 | 3,504 |
| Non teaching costs | 6,162 | 6,081 |
| Premises costs | 1,887 | 3,972 |
| | <hr/> | <hr/> |
| Total | 11,418 | 13,557 |

Other operating expenses include:

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Auditors' remuneration: | | |
| Financial statements audit* | 39 | 36 |
| Internal audit** | 30 | 30 |
| Other services provided by the financial statements auditors*** | 12 | 12 |
| Other services provided by the internal auditors | 5 | 3 |
| Losses on disposal of tangible fixed assets [where not material] | 6 | 0 |
| Hire of plant and machinery – operating leases | 15 | 15 |
| Hire of other assets – operating leases | 3 | 3 |
| | <hr/> <hr/> | <hr/> <hr/> |

* includes £32,250 in respect of the College (2009/10 £30,000)

** includes £24,000 in respect of the College (2009/10 £24,000)

***** see Chapter 5 for further disclosure details including the impact of TECH 04/11 issued in 2012]**

9 Interest and other finance costs

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| On bank loans, overdrafts and other loans: | | |
| Repayable within five years, not by instalments | 0 | 0 |
| Repayable within five years, by instalments | 0 | 0 |
| Repayable wholly or partly in more than five years | 78 | 0 |
| | <hr/> | <hr/> |
| | 78 | 0 |
| On finance leases | 30 | 0 |
| Pension finance costs (note 32) | 0 | 0 |
| | <hr/> | <hr/> |
| Total | 108 | 0 |

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10 Taxation

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| United Kingdom corporation tax at [xx] per cent | 12 | 12 |
| Provision for deferred corporation tax in the accounts of the subsidiary company | 0 | 0 |
| | <hr/> | <hr/> |
| Total | 12 | 12 |

11 (Deficit)/surplus on continuing operations for the period

The (deficit)/surplus on continuing operations for the year is made up as follows:

| | 2012 £'000 | 2011 £'000 |
|---|----------------|---------------|
| College's (deficit)/surplus for the period | (9,944) | 856 |
| Surplus generated by subsidiary undertakings and transferred to the College under gift aid/deed of covenant | 30 | 30 |
| | <hr/> | <hr/> |
| Total | (9,914) | 886 |

12 Tangible fixed assets (Group)

| | Land and buildings | | Equipment | Total |
|---------------------------------------|--------------------|----------------|---------------|---------------|
| | Freehold | Long leasehold | | |
| | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | |
| At 1 August 2011 | 75,117 | 150 | 10,587 | 85,854 |
| Additions | 12,981 | 0 | 3,672 | 16,653 |
| Surplus on revaluation | 4,500 | 0 | 0 | 4,500 |
| Disposals | (18,000) | 0 | (81) | (18,081) |
| At 31 July 2012 | 74,598 | 150 | 14,178 | 88,926 |
| Depreciation | | | | |
| At 1 August 2011 | 4,311 | 6 | 7,563 | 11,880 |
| Charge for the year | 1,287 | 3 | 2,748 | 4,038 |
| Revaluation | (600) | 0 | 0 | (600) |
| Elimination in respect of disposals | (1,080) | 0 | (63) | (1,143) |
| At 31 July 2012 | 3,918 | 9 | 10,248 | 14,175 |
| Net book value at 31 July 2012 | 70,680 | 141 | 3,930 | 74,751 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value at 31 July 2011 | 70,806 | 144 | 3,024 | 73,974 |

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12 Tangible fixed assets (College only)

| | Land and buildings | | Equipment | Total |
|---------------------------------------|--------------------|----------------|---------------|---------------|
| | Freehold | Long leasehold | | |
| | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | |
| At 1 August 2011 | 75,117 | 0 | 10,251 | 85,368 |
| Additions | 12,981 | 0 | 3,603 | 16,584 |
| Surplus on revaluation | 4,500 | 0 | 0 | 4,500 |
| Disposals | (18,000) | 0 | (81) | (18,081) |
| At 31 July 2012 | 74,598 | 0 | 13,773 | 88,371 |
| Depreciation | | | | |
| At 1 August 2011 | 4,311 | 0 | 7,473 | 11,784 |
| Charge for the year | 1,287 | 0 | 2,706 | 3,993 |
| Revaluation | (600) | 0 | 0 | (600) |
| Elimination in respect of disposals | (1,080) | 0 | (63) | (1,143) |
| At 31 July 2012 | 3,918 | 0 | 10,116 | 14,034 |
| Net book value at 31 July 2012 | 70,680 | 0 | 3,657 | 74,337 |
| Net book value at 31 July 2011 | 70,806 | 0 | 2,778 | 73,584 |

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS 15. Accordingly the book values at implementation have been retained.

The net book value of equipment includes an amount of £204,000 (2010/11 – £216,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £12,000 (2010/11 – £13,500).

If fixed assets had not been revalued they would have been included at the following historical cost amounts:

| | £'000 |
|--------------------------------------|------------|
| Cost | Nil |
| Aggregate depreciation based on cost | Nil |
| Net book value based on cost | Nil |

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13 Investments

| | College 2012 £'000 | College 2011 £'000 |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Investments in subsidiary companies | 6 | 6 |
| Investments in associate companies | 0 | 0 |
| Total | 6 | 6 |

The College owns 100 per cent of the issued ordinary £1 shares of ABC Limited, a company incorporated in England and Wales, and 100 per cent of the issued ordinary £1 shares of XYZ Limited, a company incorporated in England and Wales. The principal business activity of XYZ Limited is carrying out training of employees on behalf of employers. The principal activity of ABC Limited is the rental of property. The College also owns 10 per cent of the issued ordinary capital shares of PQR Limited, the initial cost of which was £200.

14 Endowment assets

| | Group £'000 | College £'000 |
|---|------------------------|--------------------------|
| Balance at 1 August 2011 | 24,600 | 24,600 |
| Additions (note 26) | 5,100 | 5,100 |
| Disposals (note 26) | (4,700) | (4,700) |
| Appreciation of endowment asset investments (note 21) | 2,200 | 2,200 |
| Decrease in cash balances held at fund managers | (350) | (350) |
| Balance at 31 July 2012 | 26,850 | 26,850 |
| Represented by: | | |
| Fixed interest stocks (listed) | 2,600 | 2,600 |
| Equities (listed) | 15,200 | 15,200 |
| Land and property | 6,700 | 6,700 |
| Cash balances (note 29) | 2,350 | 2,350 |
| Total | 26,850 | 26,850 |

Land and property valuations as at 31 July 2012 have been made by senior management on the advice of firms of Chartered Surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

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15 Debtors

| | Group 2012 £'000 | College 2012 £'000 | Group 2011 £'000 | College 2011 £'000 |
|---|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Amounts falling due within one year: | | | | |
| Trade debtors | 1,089 | 486 | 1,197 | 567 |
| Amounts owed by group undertakings: | | | | |
| Subsidiary undertakings | 0 | 510 | 0 | 637 |
| Associate undertakings | 0 | 63 | 0 | 50 |
| Prepayments and accrued income | 81 | 57 | 93 | 63 |
| Amounts owed by the [Skills Funding Agency/EFA] | 0 | 0 | 0 | 0 |
| Total | <u>1,170</u> | <u>1,116</u> | <u>1,290</u> | <u>1,317</u> |

16 Creditors: amounts falling due within one year

| | Group 2012 £'000 | College 2012 £'000 | Group 2011 £'000 | College 2011 £'000 |
|---|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Bank loans and overdrafts | 225 | 225 | 0 | 0 |
| Obligations under finance leases | 36 | 36 | 36 | 36 |
| Payments received in advance | 447 | 447 | 414 | 414 |
| Trade creditors | 1,578 | 1,164 | 1,425 | 1,080 |
| Amounts owed to group undertakings: | | | | |
| Subsidiary undertakings | 0 | 87 | 0 | 102 |
| Associate undertakings | 0 | 0 | 0 | 0 |
| Corporation tax | 12 | 0 | 12 | 0 |
| Other taxation and social security | 753 | 753 | 687 | 687 |
| Accruals | 687 | 654 | 1,071 | 1,023 |
| Amounts owed to the [Skills Funding Agency/EFA] | 606 | 606 | 306 | 306 |
| Total | <u>4,344</u> | <u>3,972</u> | <u>3,951</u> | <u>3,648</u> |

17 Creditors: amounts falling due after one year

| | Group 2012 £'000 | College 2012 £'000 | Group 2011 £'000 | College 2011 £'000 |
|---|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Bank loans | 4,275 | 4,275 | 0 | 0 |
| Obligations under finance leases | 126 | 126 | 162 | 162 |
| Loans from subsidiary and associate companies | 0 | 0 | 0 | 0 |
| Total | <u>4,401</u> | <u>4,401</u> | <u>162</u> | <u>162</u> |

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18 Borrowings

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

| | Group | College | Group | College |
|----------------------------|--------------|----------------|--------------|----------------|
| | 2012 | 2012 | 2011 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | 225 | 225 | 0 | 0 |
| Between one and two years | 225 | 225 | 0 | 0 |
| Between two and five years | 900 | 900 | 0 | 0 |
| In five years or more | 3,150 | 3,150 | 0 | 0 |
| Total | 4,500 | 4,500 | 0 | 0 |

Bank loans and overdrafts at 7.25 per cent repayable by instalments falling due between 1 August 2011 and 31 July 2026 totalling £4,500,000 are secured on a portion of the freehold land and buildings of the College.

(b) Finance leases

The net finance lease obligations to which the institution is committed are:

| | Group | College | Group | College |
|----------------------------|--------------|----------------|--------------|----------------|
| | 2012 | 2012 | 2011 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | 36 | 36 | 36 | 36 |
| Between two and five years | 126 | 126 | 162 | 162 |
| In five years or more | 0 | 0 | 0 | 0 |
| Total | 162 | 162 | 198 | 198 |

Finance lease obligations are secured on the assets to which they relate.

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19 Provisions for liabilities and charges

| | Group and College | | | |
|---|------------------------|-------------------|----------------|----------------|
| | Restructuring £'000 | Enhanced £'000 | Other £'000 | Total £'000 |
| At 1 August 2011 | 894 | 699 | 531 | 2,124 |
| Expenditure in the period | (90) | (47) | (531) | (668) |
| Transferred from income and expenditure | 2,022 | 20 | 0 | 2,042 |
| At 31 July 2012 | 2,826 | 672 | 0 | 3,498 |

The restructuring provision relates to the exceptional restructuring of costs arising from the closure of the Department of Media Studies which was announced in April 2012 and for which redundancy notices were served in June 2012. Other provisions relate to a legal obligation to carry out remedial pipework in the institution's leasehold building. This work will be completed during 2012/13.

The enhanced pension provision relates to the cost of staff who have already left the College's employ and commitments for reorganisation costs from which the College cannot reasonably withdraw at the balance sheet date. This provision has been recalculated in accordance with guidance issued by the funding bodies.

The principal assumptions for this calculation are:

| | 2012 | 2011 |
|-----------------|-------|-------|
| Price inflation | 3.74% | 3.74% |
| Discount rate | 2.5% | 2.5% |

20 Deferred capital grants

| | Group and College | | |
|--|--------------------------|--------------------------|--------------|
| | Funding body £'000 | Other grants £'000 | £'000 |
| At 1 August 2011 | 9,012 | 150 | 9,162 |
| Cash received | 1,548 | 162 | 1,710 |
| Released to income and expenditure account | (1,881) | (81) | (1,962) |
| At 31 July 2012 | 8,679 | 231 | 8,910 |

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21 Endowments

| | £'000 | £'000 | £'000 | £'000 | £'000 |
|-------------------------|--------------|--------------|---------------|---------------|---------------|
| | Unrestricted | Restricted | Total | Restricted | Total |
| | Permanent | Permanent | Permanent | Expendable | |
| At 1 August 2011 | 7,500 | 5,100 | 12,600 | 12,000 | 24,600 |
| Net additions/disposals | 0 | 40 | 40 | 60 | 100 |
| Appreciation of | 600 | 600 | 1,200 | 1,000 | 2,200 |
| Income for year | 300 | 150 | 450 | 350 | 800 |
| Expenditure for year | (300) | (150) | (450) | (400) | (850) |
| At 31 July 2012 | 8,100 | 5,740 | 13,840 | 13,010 | 26,850 |

| | £'000 | £'000 | £'000 | £'000 | £'000 |
|-------------------------|--------------|--------------|---------------|---------------|---------------|
| | Unrestricted | Restricted | Total | Restricted | Total |
| | Permanent | Permanent | Permanent | Expendable | |
| At 1 August 2010 | 7,100 | 4,700 | 11,800 | 10,750 | 22,550 |
| Net additions/disposals | 0 | 50 | 50 | 550 | 600 |
| Appreciation of | 400 | 350 | 750 | 700 | 1,450 |
| Income for year | 96 | 244 | 340 | 350 | 690 |
| Expenditure for year | (96) | (244) | (340) | (350) | (690) |
| At 31 July 2011 | 7,500 | 5,100 | 12,600 | 12,000 | 24,600 |

22 Revaluation reserve

| | Group | College | Group | College |
|--|---------------|---------------|---------------|---------------|
| | 2012 | 2012 | 2011 | 2011 |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 August | 59,286 | 59,286 | 60,717 | 60,717 |
| Revaluations in the period (as per note 12) | 5,100 | 5,100 | 0 | 0 |
| Transfer from revaluation reserve to general | | | | |
| Disposals | (16,920) | (16,920) | 0 | 0 |
| Depreciation on revalued assets | (1,416) | (1,416) | (1,431) | (1,431) |
| At 31 July | 46,050 | 46,050 | 59,286 | 59,286 |

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23 Movement on general reserves

| | Group 2012 £'000 | College 2012 £'000 | Group 2011 £'000 | College 2011 £'000 |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Income and expenditure account reserve | | | | |
| At 1 August | 10,233 | 10,158 | 10,332 | 10,287 |
| (Deficit)/surplus retained for the year | (9,864) | (9,894) | 886 | 856 |
| Transfer from revaluation reserve | 18,336 | 18,336 | 1,431 | 1,431 |
| Actuarial loss in respect of pension scheme | (2,806) | (2,806) | (2,416) | (2,416) |
| At 31 July | <u>15,899</u> | <u>15,794</u> | <u>10,233</u> | <u>10,158</u> |
| Balance represented by: | | | | |
| Pension reserve | (1,460) | (1,460) | 1,440 | 1,440 |
| Income and expenditure account reserve excluding pension reserve | 17,359 | 17,254 | 8,793 | 8,718 |
| At 31 July | <u>15,899</u> | <u>15,794</u> | <u>10,233</u> | <u>10,158</u> |

24 Reconciliation of consolidated operating (deficit)/surplus to net cash inflow from operating activities

| | 2012 £'000 | 2011 £'000 |
|--|-----------------------|-----------------------|
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation | (9,902) | 898 |
| Depreciation (notes 1 and 12) | 4,038 | 2,802 |
| Deferred capital grants released to income (note 20) | (1,962) | (1,860) |
| (Loss)/profit on disposal of tangible fixed assets | 9,426 | 0 |
| Interest payable (note 9) | 108 | 0 |
| Interest receivable (note 5) | (2,003) | (1,437) |
| FRS 17 pension cost less contributions payable (notes 6 and 32) | 347 | 333 |
| FRS 17 pension finance income (note 5) | (253) | (652) |
| (Increase)/decrease in stocks | 0 | 0 |
| (Increase)/decrease in debtors | 120 | 93 |
| Increase/(decrease) in creditors | 168 | 234 |
| Increase/(decrease) in provisions | 1,374 | 363 |
| Net cash inflow from operating activities | <u>1,461</u> | <u>774</u> |

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25 Returns on investments and servicing of finance

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Income from endowments | 800 | 0 |
| Other interest received | 1,203 | 1,437 |
| Interest paid | (78) | 0 |
| Interest element of finance lease rental payment | (30) | 0 |
| Net cash inflow from returns on investment and servicing of finance | 1,895 | 1,437 |

26 Capital expenditure and financial investment

| | 2012 | 2011 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Purchase of tangible fixed assets | (16,653) | (7,476) |
| Payments to acquire endowment assets | (5,100) | 0 |
| Sales of tangible fixed assets (see note 30) | 7,512 | 0 |
| Receipt from sale of endowment assets | 4,700 | 0 |
| Deferred capital grants received | 1,710 | 1,113 |
| Endowments received | 100 | 0 |
| Net cash outflow from capital expenditure and financial investment | (7,731) | (6,363) |

27 Management of liquid resources

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Sale of investments | 0 | 0 |
| Withdrawals from deposits | 1,500 | 0 |
| Purchase of investments | 0 | 0 |
| Placing of deposits | 0 | 0 |
| Movement in endowment assets | 350 | 0 |
| Net cash inflow from management of liquid resources | 1,850 | 0 |

28 Financing

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Debt due beyond a year: | | |
| New unsecured loans repayable by 2026 | 4,500 | 0 |
| Repayment of amounts borrowed | 0 | 0 |
| Capital element of finance lease rental payments | (36) | (36) |
| Net cash inflow/(outflow) from financing | 4,464 | (36) |

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29 Analysis of changes in net funds

| | At 1 August 2011 £'000 | Cash flows £'000 | Other changes £'000 | At 31 July 2012 £'000 |
|--------------------------------------|------------------------------|------------------------|---------------------------|-----------------------------|
| Cash in hand, and at bank | 585 | 1,927 | 0 | 2,512 |
| Endowment asset investments (note14) | 2,700 | (350) | 0 | 2,350 |
| Overdrafts | 0 | 0 | 0 | 0 |
| | 3,285 | 1,577 | 0 | 4,862 |
| Debt due within 1 year | 0 | (225) | 0 | (225) |
| Debt due after 1 year | 0 | (4,275) | 0 | (4,275) |
| Finance leases | (198) | 36 | 0 | (162) |
| Current asset investments | 7,500 | (1,500) | 0 | 6,000 |
| Total | 10,587 | (4,387) | 0 | 6,200 |

[£1.5 million of the funds in current asset investments is derived from the sale of the Westwick site and is held for re-investment in the main College site.] **May need amending if the College has had specific permission to utilise these funds against the write off of capital costs.**

30 Cash flow relating to exceptional items

| | 2012 £'000 | 2011 £'000 |
|---------------------------------------|---------------|---------------|
| Provision as at 1 August | 0 | 0 |
| Income and expenditure account charge | 1,551 | 0 |
| Operating cash outflow | 0 | 0 |
| Provision as at 31 July | 1,551 | 0 |

The operating cash outflows do not include an outflow of £1,551,000 for exceptional restructuring costs as the amount provided was not paid until the following financial year (see also note 6). Receipts from the sale of tangible fixed assets include £7,500,000 from the sale of the Church Street annexe (see note 12)

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31 Major non-cash transactions

a) Restructuring costs

During the year the College made a provision of £2,022,000 for future restructuring costs.

b) Revaluation of property

The Church Street annexe was revalued prior to disposal by a firm of independent chartered surveyors on an open market valuation basis. The value was increased by £5,100,000.

32 Pension and similar obligations

The College's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by [name]. Both are defined-benefit schemes.

| Total pension cost for the year | 2012 | 2011 |
|---|--------------|--------------|
| | £000 | £000 |
| Teachers Pension Scheme: contributions paid | 989 | 1,490 |
| Local Government Pension Scheme: | | |
| Contributions paid | 178 | 163 |
| FRS 17 charge | 347 | 333 |
| Charge to the Income and Expenditure Account (staff | 525 | 496 |
| Enhanced pension charge to Income and Expenditure | 0 | 0 |
| Account (staff costs) | | |
| Total Pension Cost for Year | 1,514 | 1,986 |

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010.

[There were no outstanding or prepaid contributions at either the beginning or the end of the financial year/Contributions amounting to £xxx,000 (2010 £xxx,000) were payable to the scheme at 31st July and are included within creditors.]

Teachers' Pension Scheme

The TPS is an unfunded defined benefit scheme. Contributions on a "pay-as-you-go" basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.

The pensions cost is normally assessed not less than once every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

| | |
|---|------------------------|
| Latest actuarial valuation (under the new provisions) | 31 March 2004 |
| Actuarial method | Prospective benefits |
| Investment returns per annum | 6.5 per cent per annum |
| Salary scale increases per annum | 5.0 per cent per annum |
| Notional value of assets at date of last valuation | £162,650 million |

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Proportion of members' accrued benefits covered by the notional value of the assets 98.88 %

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 August 2011 to 31 July 2012 the employer contribution was 14.1%. The employee rate was 6.4% for the period to 31st March 2012 with rates between 6.4% and 8.8% depending on the member's salary from 1st April 2012. An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by [XYZ] Local Authority. The total contribution made for the year ended 31 July 2012 was £285,000, of which employer's contributions totalled £178,000 and employees' contributions totalled £107,000. The agreed contribution rates for future years are 17.3% for employers and range from 5.5% to 7.5% for employees, depending on salary.

FRS 17

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2010 updated to 31 July 2012 by a qualified independent actuary

| | At 31 July 2012 | At 31 July 2011 |
|--|-----------------|-----------------|
| Rate of increase in salaries | 4.4% | 4.1% |
| Rate of increase for pensions in payment / inflation | 2.9% | 2.6% |
| Discount rate for scheme liabilities | 5.8% | 5.5% |
| Inflation assumption (CPI) | 2.9% | 2.9% |
| Commutation of pensions to lump sums | 50% | 25% |

The current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement age 65 are:

| | At 31 July 2012 | At 31 July 2011 |
|-----------------------------|-----------------|-----------------|
| <i>Retiring today</i> | | |
| Males | 21.2 | 18.9 |
| Females | 24.0 | 21.8 |
| <i>Retiring in 20 years</i> | | |
| Males | 22.4 | 19.9 |
| Females | 25.1 | 22.8 |

The College's share of the assets and liabilities in the scheme and the expected rates of return were:

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| | Long-term rate of return expected at 31 July 2012 | Value at 31 July 2012 £'000 | Long-term rate of return expected at 31 July 2011 | Value at 31 July 2011 £'000 |
|--|--|-----------------------------------|--|-----------------------------------|
| Equities | 8.0% | 7,475 | 8.0% | 8,123 |
| Bonds | 5.9% | 2,304 | 6.0% | 2,495 |
| Property | 7.2% | 1,152 | 7.2% | 1,248 |
| Cash | 4.5% | 572 | 4.5% | 637 |
| Total market value of assets | | 11,503 | | 12,503 |
| Present value of scheme liabilities | | | | |
| - Funded | | (12,963) | | (11,063) |
| - Unfunded | | 0 | | 0 |
| Related deferred tax liability | | 0 | | 0 |
| Surplus/(deficit) in the scheme | | (1,460) | | 1,440 |

Analysis of the amount charged to income and expenditure account

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Employer service cost (net of employee contributions) | 388 | 369 |
| Past service cost | 137 | 127 |
| Total operating charge | 525 | 496 |

Analysis of pension finance income / (costs)

| | | |
|--|------------|------------|
| Expected return on pension scheme assets | 917 | 1,234 |
| Interest on pension liabilities | (664) | (582) |
| Pension finance income / (costs) | 253 | 652 |

Amount recognised in the statement of total recognised gains and losses (STRGL)

| | 2012 £'000 | 2011 £'000 |
|---|----------------|----------------|
| Actuarial gains/losses on pension scheme assets | (2,203) | (1,876) |
| Actuarial gains/losses on scheme liabilities | (603) | (540) |
| Actuarial loss recognised in STRGL | (2,806) | (2,416) |

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Movement in surplus/(deficit) during year

| | 2012 | 2011 |
|---|----------------|--------------|
| | £'000 | £'000 |
| Surplus/(deficit) in scheme at 1 August | 1,440 | 3,537 |
| Movement in year: | | |
| Employer service cost (net of employee contributions) | (388) | (369) |
| Employer contributions | 178 | 163 |
| Past service cost | (137) | (127) |
| Net interest/return on assets | 253 | 652 |
| Actuarial gain or loss | (2,806) | (2,416) |
| (Deficit)/Surplus in scheme at 31 July * | (1,460) | 1,440 |

Asset and Liability Reconciliation

| | 2012 | 2011 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Reconciliation of Liabilities | | |
| Liabilities at start of period | 11,063 | 9,340 |
| Service cost | 388 | 369 |
| Interest cost | 664 | 582 |
| Employee contributions | 107 | 105 |
| Experience gains and losses on scheme liabilities | 293 | 250 |
| Actuarial (gain)/loss | 310 | 290 |
| Benefits paid | 1 | 0 |
| Past Service cost | 137 | 127 |
| Curtailments and settlements | 0 | 0 |
| Liabilities at end of period* | 12,963 | 11,063 |
| Reconciliation of Assets | | |
| Assets at start of period | 12,503 | 12,877 |
| Expected return on assets | 917 | 1,234 |
| Actuarial gain/(loss) | (2,103) | (1,876) |
| Employer contributions | 178 | 163 |
| Employee contributions | 107 | 105 |
| Benefits paid | 0 | 0 |
| Assets at end of period | 11,503 | 12,503 |

*[if a college has unfunded liabilities included within the net and total liabilities figures then these should be drawn out and separately analysed as "Amounts arising from wholly unfunded schemes" alongside "Amounts from other schemes"]

The estimated value of employer contributions for the year ended 31 July 2012 is £185,000.

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History of experience gains and losses

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------|---------|---------|-------|-------|
| Difference between the expected and actual return on assets: | | | | | |
| Amount £'000* | (2,203) | (1,876) | (1,104) | (521) | (125) |
| Experience gains and losses on scheme liabilities: | | | | | |
| Amount £'000* | (293) | (250) | (150) | (40) | (11) |
| Total amount recognised in STRGL: | | | | | |
| Amount £'000* | (2,806) | (2,416) | (1,498) | (700) | (210) |

**FRS 17 (revised) allows for EITHER monetary amounts or values expressed in percentage terms to be disclosed here.*

33 Post-balance sheet events

a) College merger

On 1 August 2012 the College merged its activities with those of Wessex College of Agriculture. At that date all assets, liabilities and activities of Wessex College transferred to Casterbridge College and Wessex College was dissolved. All activities are continuing within the merged College. Assets valued at £1,300,000 and liabilities (£1,020,000) and an operating surplus on activities of £50,000 were transferred.

b) Investment returns

Since the balance sheet date, the global economic downturn has resulted in volatility in investment markets. As a result there is an increased risk that the value of investments held by the College, whether directly or indirectly (such as through the pension fund) may have deteriorated. However, any such deterioration is considered to be a non adjusting event and as such has not been reflected in these financial statements.

34 Capital commitments

| | Group and College | |
|--|-------------------|-------|
| | 2012 | 2011 |
| | £'000 | £'000 |
| Commitments contracted for at 31 July | 2,703 | 2,691 |
| Authorised but not contracted at 31 July | NIL | NIL |

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35 Financial commitments

At 31 July the College had annual commitments under non-cancellable operating leases as follows:

| | Group and College | |
|--|-------------------|-------------|
| | 2012 | 2011 |
| | £'000 | £'000 |
| Land and buildings | | |
| Expiring within one year | 0 | 0 |
| Expiring within two and five years inclusive | 0 | 0 |
| Expiring in over five years | 0 | 0 |
| | <hr/> | <hr/> |
| | 0 | 0 |
| Other | | |
| Expiring within one year | 6 | 6 |
| Expiring within two and five years inclusive | 15 | 15 |
| Expiring in over five years | 3 | 3 |
| | <hr/> | <hr/> |
| | 24 | 24 |
| | <hr/> <hr/> | <hr/> <hr/> |

36 Contingent liability

The College is currently being sued for damages by a foreign institution concerning programmes run by the College. However, the College has received Counsel's opinion that it should not be liable in view of the specific circumstances of the case. The case is proceeding and, in view of the uncertainty, no financial provision has been made in these accounts in relation to this matter. It is not considered practical to estimate the potential liability at this stage.

37 Related party transactions

Owing to the nature of the College's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

PQR Limited – an associate of Casterbridge College

Purchase transactions in the year amounted to £20,000 (2011 – £15,000). There were no balances outstanding at the year end (2011 – £nil)

DEF Limited – a company in which Mr Brown, the Dean of Engineering has a majority interest.

Transactions totalling £101,000 (2011 - £nil), relating to the purchase of specialist equipment took place. There were no amounts outstanding (2011 - £nil).

Transactions with the funding bodies and HEFCE are detailed in notes 2, 15, 16 and 20.

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38 Amounts disbursed as agent

| | 2012 | 2011 |
|--|-------------|-------------|
| | £'000 | £'000 |
| Funding body grants – hardship support | 283 | 274 |
| Funding body grants – childcare | 23 | 22 |
| Funding body grants – residential bursaries | 15 | 14 |
| Other Funding bodies grants | 2 | 0 |
| Interest earned | 5 | 6 |
| | <hr/> | <hr/> |
| | 328 | 316 |
| Disbursed to students | (260) | (308) |
| Staffing | (38) | – |
| Administration costs | (7) | (6) |
| Audit fees | (3) | (2) |
| Amount consolidated in financial statements | (20) | – |
| | <hr/> | <hr/> |
| Balance unspent as at 31 July, included in creditors | – | – |
| | <hr/> <hr/> | <hr/> <hr/> |

Funding body grants are available solely for students. In the majority of instances, the College only acts as a paying agent. In these circumstances, the grants and related disbursements are therefore excluded from the income and expenditure account. The income and expenditure consolidated in the College's financial statements relates to the purchase of some equipment from the access fund and the payment of accommodation by the College on the student's behalf.

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Chapter 5: Guidance on the Preparation of the Annual Report and Notes to the Financial Statements

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General Accounting Policies and Components of the Financial Statements

5.1 Each College is required to prepare financial statements and related reports for each financial year, which should give a true and fair view of its state of affairs at the balance sheet date, and of its results and cash flows for the period. The financial statements should encompass:

- income and expenditure account
- statement of total recognised gains and losses
- statement of historical cost surpluses and deficits
- balance sheet
- cash flow statement
- statement of principal accounting policies
- notes to the financial statements

5.2 In accordance with FRS 2 *Accounting for Subsidiary Undertakings*, where the College has subsidiary undertakings, it should normally prepare consolidated financial statements.

5.3 The accounting policies adopted for dealing with material items should be explained in the notes to the financial statements. These explanations should be clear, fair and as brief as is consistent with clarity.

5.4 The financial statements should normally be prepared using the historical cost convention as modified by the revaluation of inherited assets and other assets where a College has chosen to revalue them.

5.5 The related reports should include the following:

- an operating and financial review (which may also be called a members report or report of the governing body)
- statement of corporate governance and internal control
- statement of responsibilities of the governing body
- financial statements and regularity auditor's reports

The Operating and Financial Review (OFR)

5.6 All the corporation members are jointly responsible for the preparation of the annual report and accounts and should prepare in respect of each financial year:

- a report describing what the corporation is trying to do and how it is going about it, including the legal and administrative status of the corporation
- accounts and notes thereto in accordance with the 2007 SORP and guidance issued by the relevant funding bodies.

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5.7 Whilst the report is legally a separate document from the accounts, it is expected that they will be presented together in the same publication.

5.8 The annual report and accounts should be approved by the corporation as a body in accordance with its usual procedures and both documents should be signed on behalf of the corporation by one of their number authorised so to do (usually the Chair). The date of approval should be stated. Any members who consider that the report and/or accounts should not be approved, or should not have been approved, should report to the appropriate funding body as the regulator of the College, any of their concerns which they are unable to resolve with their fellow members and/or with the financial statements auditors.

5.9 The annual report should explain what the College is trying to do and how it is going about it. It should show whether the College has achieved its objectives during the year and explain its plans for the future. It should also help the reader of the report and accounts to understand how the numerical part of the accounts relates to the activities of the College.

5.10 The 2007 SORP introduced the requirement to include an OFR for the first time in 2007/08. This review should follow the best practice set out in the Reporting Statement '*The Operating and Financial Review*' issued by the Accounting Standards Board in January 2006. Paragraphs 25 and 26 of the 2007 SORP state that the OFR:

“should provide a comprehensive and balanced analysis, ***consistent with the size and complexity of the institution***, of:

- (a) the development, performance and operation of the business and operation of the institution during the financial year;
- (b) the position of the institution at the end of the year;
- (c) the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and
- (d) the main trends and factors which are likely to affect the institution's future development, performance and position.

The OFR should:

- (a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);
- (b) focus on matters that are relevant to the interests of *funders and financial supporters*;
- (c) have a forward-looking orientation, identifying those trends and factors relevant to the *funders and financial supporters'* assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;
- (d) complement as well as supplement the *financial statements*, in order to enhance the overall corporate disclosure;
- (e) be comprehensive and understandable;

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- (f) be balanced and neutral, dealing even-handedly with both good and bad aspects; and
- (g) be comparable over time.

Paragraph 27 goes on to say that the key elements of the disclosure framework are:

- (a) the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;
- (b) the development and performance of the institution, both in the financial year under review and in the future;
- (c) the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and
- (d) the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.

5.11 The format and content of the OFR is ***not prescribed*** though the Casterbridge model accounts illustrate one specific interpretation of the principles. Colleges should have regard to their own particular circumstances, the size and complexity of the institution, the nature of future events such as a property strategy or a debt refinancing arrangement, exposure to overseas risks and so on when deriving their own reviews. The College's Risk Register should provide a useful source of information for this reporting area and auditors will want to cross reference between the two documents for completeness of disclosures. ***It is not expected that the Casterbridge example will become a template for Colleges across the sector.***

Illustrative sections of the revised annual report and the disclosure requirements are summarised in Table 5.1.

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Table 5.1: Outline of illustrative Casterbridge College annual report

| Heading in model Casterbridge College annual report | Disclosure requirements |
|---|-------------------------|
| <i>Nature, Objectives and strategies</i> | |
| Legal status | Mandatory |
| Mission | Optional* |
| Implementation of strategic plan | Optional* |
| Financial objectives | Optional* |
| Performance indicators | Optional* |
| <i>Financial position</i> | |
| Treasury Management | Optional* |
| Cash flows | Optional* |
| Liquidity | Optional* |
| Going Concern including future financial performance as appropriate | Optional* |
| <i>Current and Future Developments</i> | Optional* |
| Student numbers | Optional* |
| Student achievements | Optional* |
| Curriculum developments | Optional* |
| Post balance sheet events | Optional* |
| Payment performance | Optional* |
| Competitive environment | Optional* |
| Environmental issues | Optional* |
| <i>Resources</i> | |
| <i>Principal risks and uncertainties</i> | |
| <i>Stakeholder relationships</i> | |
| Equal opportunities and employment of disabled persons | Optional* |
| Disability statement | Mandatory |

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| Heading in model Casterbridge College annual report | Disclosure requirements |
|--|-------------------------|
| Disclosure of information to auditors | Mandatory |
| Professional advisors | Optional* |
| Corporate governance statement (including list of governors who served on board during year) | Mandatory |
| Statement of the responsibilities of the corporation members | Mandatory |
| Public Benefit Test | Optional* |

***“Optional” in these circumstances is intended to mean “indicative”.**

As noted above, as long as the mandatory requirements are maintained, **Colleges are able to tailor the report to their own requirements**. It is however expected that it would be appropriate for most Colleges to include commentary on the majority of the items listed. The lists are by no means exhaustive, nor the suggested wording mandatory. For example, a College may wish to add a statement on its social, environmental and ethical arrangements to the above.

5.12 It is important that, on tailoring the members’ report to their own requirements, Colleges consider the users of their report and financial statements, namely:

- the College’s main funding body
- other funding councils
- Government departments and Parliament
- the institution’s employees
- the institution’s students
- lenders and creditors
- other institutions, schools and industry
- grant-awarding bodies, donors and benefactors
- the general public.

5.13 Therefore, each College should adapt the narrative according to its own particular circumstances, but should cover all of the following:

- legal status of the corporation
- an explanation of the strategy of the College, which should include the mission statement of the College, its objectives and the targets in its three-year development plan
- a review of the activities of the College (including its subsidiary undertakings if applicable) in the context of its strategy, including significant changes, developments and achievements in the past year, events affecting those activities since the year end and plans for the future

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- a statement of the College's financial objectives and assessment of its financial performance during the accounting period. If the College has net current liabilities, then there should be an explanation of why this is the case and what action is being taken
- a disability statement. Whilst a statement is required, it is not necessary to copy word for word the example provided in the model Casterbridge College members' report. However, it will be important to the users of the accounts if the College states whether the statement complies with the Disabilities Discrimination Act 1995 as updated by the Special Education Needs and Disability Acts of 2001 and 2005.
- a statement of the responsibilities of the corporation members
- a corporate governance and internal control statement including a list of the governors who served on the board during the year. This statement should confirm that the major risks to which the College is exposed, as identified by the corporation, have been reviewed and systems have been established to mitigate those risks.

5.14 The large majority of Colleges are exempt charities under the Charities Act 2006 as they were under the previous act. As such they are not required to include within their annual reporting how they meet the "public benefit test" for their charitable activities. Any Colleges that are **registered** charities however, will have to make specific reference to this within their accounts, most likely within their OFR. Guidance on this matter is being developed by the Charities Commission and any Colleges that believe they are affected by this legislation should discuss it with their auditors and refer to the guidance on the relevant Charities Commission website pages at http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_essentials/Public_benefit/public_benefit.aspx).

Notes to the Financial Statements

5.15 The objectives of the notes to the financial statements are to:

- supplement the information given in the financial statements in respect of any particular items that are shown on the face of the income and expenditure account or balance sheet
- indicate any particular circumstances that affect items included in the income and expenditure account
- provide details of any other matters relevant to an assessment of the College's state of affairs
- supplement the information given in respect of particular items appearing in the cash flow statement.

5.16 The notes to the financial statements should indicate the accounting policies that have been adopted and state whether the financial statements have been drawn up in accordance with the requirements of the relevant funding bodies and the 2007 SORP. In particular, the accounting policies adopted in relation to the following items should be disclosed:

- recognition of income

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- pension schemes
- capitalisation and depreciation of tangible fixed assets, including the policy in respect of any buildings used (but not owned) by the College
- leases
- investments
- stocks
- foreign currency transactions
- taxation
- subsidiary undertakings.

5.17 The following items must also be included in the notes to the financial statements:

- the period of account
- more detailed information relating to the income and expenditure account
- explanation of any exceptional items and their presentation in the accounts
- employee numbers and costs
- emoluments of the College's senior post-holders and members*
- compensation for loss of office paid to senior post-holders
- taxation
- details of tangible fixed assets and depreciation
- details of fixed asset investments
- details of endowment assets
- stocks
- details of cash in bank held for future fixed-asset investments
- analysis of debtors and creditors
- details of all provisions for liabilities and charges**
- details of deferred grants
- financial commitments and contingencies***
- details of pension schemes, including FRS 17 (revised) *Retirement Benefits* disclosures
- details of post balance sheet events
- details of the notes to the cash flow statement
- details of subsidiaries consolidated into the accounts

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- the name of any subsidiary excluded from the consolidation and the reasons for its exclusion, the aggregate capital and reserves at the subsidiary's most recent financial year end and its profit or loss for that year
- auditors' remuneration for external audit, internal audit and other services, split between internal and external audit****
- details of related party transactions
- an analysis of the grant and subsequent reimbursement of access funds.

* For this purpose, "emoluments" include the normal remuneration salary, whether paid by the College or any subsidiary undertaking and contributions paid under any pension scheme, the estimated monetary value of any benefits received other than in cash, and any expense allowances to the extent that they are chargeable to UK income tax. No member of the corporation may receive any remuneration for his or her services, other than as a member of staff, without the written approval of the Secretary of State for Business, Innovation and Skills. Members may receive reimbursement for reasonable expenses.

** Provisions for liabilities and charges are defined in the Companies Act 2006 as "amounts retained as reasonably necessary for the purpose of providing for any liability or loss which is either likely to be incurred, or certain to be incurred, but uncertain as to the date on which it will arise".

*** A contingency is a condition that exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

**** The ICAEW has issued TECH 04/11 Disclosure of Auditor Remuneration, which provides draft guidance on the disclosure of auditor remuneration for the audit of accounts and other (non-audit) services.

The draft guidance has been issued to reflect the amendments for large companies made under SI 2011/2198 *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011* (2011 Regulations).

The amendments under the 2011 Regulations are mandatory for financial years commencing on or after 1 October 2011 but may be applied early.

| | |
|--|--|
| Audit fee for audit of [college] | <p>The disclosure of the remuneration receivable in respect of the audit of the [college] has been extended to include remuneration receivable by associates of the auditor in respect of the audit of the [college]</p> <p>For example, audit fees receivable by associate firms in respect of the audit of a [college]'s overseas branches would now be included in the audit fee disclosed.</p> |
| Disclosure of fees for other services provided | <p>Analysis was previously into ten categories and is now into eight:</p> <ol style="list-style-type: none"> 1. The auditing of accounts of any associate of the company 2. Audit-related assurance services 3. Taxation compliance services |

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| | |
|--|--|
| | <p>4. Taxation advisory services (not falling into 3)</p> <p>5. Internal audit services</p> <p>6. All other assurance services (not falling into 1 - 5)</p> <p>7. All services relating to corporate finance transactions entered into or proposed to be entered into, by or behalf of the company or any of its associates (not falling into 1 - 6)</p> <p>8. All other non-audit services (not falling into 2 - 7)</p> <p>For example, this now requires fees receivable in respect of taxation services to be split between tax compliance and tax advisory services but removes the requirement to disclose separately those fees derived from services relating to valuations and actuarial services.</p> |
|--|--|

Corresponding Amounts

5.18 Corresponding amounts for the accounting period immediately preceding that to which the financial statements relate shall be stated in respect of every item shown in the College's primary financial statements and in a note to the financial statements, except where corresponding amounts are specifically not required.

5.19 Corresponding amounts are not specifically required for the following items:

- particulars of the College's shareholdings in other undertakings
- particulars of fixed-asset additions and disposals, transfers of fixed assets and the depreciation charge
- particulars of amounts transferred to and from reserves and provisions

Accounting Standards

5.20 In discharging their obligation to prepare financial statements showing a true and fair view, Colleges are required to follow the SORP which provides guidance on the standards laid down in Statements of Standard Accounting Practice (SSAP), Financial Reporting Standards (FRSs) and Urgent Issues Task Force (UITF) abstracts. Colleges should agree the appropriateness of the accounting policies adopted with their financial statements auditors. The financial statements should contain a statement as to whether they have been prepared in accordance with the SORP. Financial statements that depart from the 2007 SORP **without adequate explanation or justification** may not be considered to be true and fair.

5.21 All Colleges must comply with the financial reporting requirements contained in any UK legislation relevant to their constitution. **Where a College is constituted as a company, the financial statements must be properly prepared in accordance with the provisions of the Companies Act 2006 as appropriate.** This is particularly important when considering the

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alternative presentation of property strategy costs outlined in the model Casterbridge College accounts.

Substance over Form

5.22 Under FRS 5 *Reporting the Substance of Transactions*, a College should report the substance of transactions into which it has entered and not simply the legal form. FRS 5 does not change the accounting treatment or disclosure of the vast majority of transactions. Areas that Colleges should consider are:

- transactions entered into under the Private Finance Initiative and major Public–Private Partnership projects
- quasi-subsidiaries, where an entity is in effect controlled by the College but does not meet the legal definition of a subsidiary undertaking
- sale and repurchase agreements
- sales and leaseback agreements
- land and buildings owned by a third party
- property leased at less than market rates
- agency arrangements.*

Where FRS 5 may apply, Colleges should consult their financial statements auditor.

* Chapter 6 contains further guidance in this area and should be referred to according to need.

Financial Reporting Standard for Smaller Entities

5.23 The Financial Reporting Standard for Smaller Entities (FRSSE) was revised in December 2001, **became effective from June 2002 and was further revised in April 2008**. Regardless of whether they fall within the scope of the FRSSE because of their size, Colleges are required to apply SSAPs, FRs and UITF abstracts when preparing their financial statements.

5.24 Where a College has a subsidiary undertaking (College company) that falls within the scope of and adopts the FRSSE, the following additional disclosure is required in the College's consolidated accounts in respect of each subsidiary undertaking.

- Directors' emoluments and staff costs and numbers should be fully disclosed in accordance with the guidance for Colleges set out in Chapter 4 of this Handbook
- Details of any activities which take place outside England and the nature of any transactions with organisations outside England should be given.
- Full disclosure should be made of the subsidiary undertaking's related party transactions in accordance with FRS 8 *Related Party Disclosures*

Financial Statements Disclosures – explanatory notes

The following table considers the main headings within the financial statements and provides additional explanatory notes as appropriate:

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Income and Expenditure Account

5.25 The notes to Colleges' financial statements should provide further information about each of the income and expenditure figures shown on the face of the income and expenditure account.

Illustrative examples are provided in the model Casterbridge College accounts. Detailed guidance on key disclosures is set out below.

5.26 Income is split into funding council grants, tuition fees and education contracts, research grants and contracts, other income-generating activities, catering, residence and conferences, farming, investment income and other income, in order to determine the dependency of a College on particular sources of income.

5.27 Expenditure is split into staff costs, other operating expenses, depreciation, interest payable and any exceptional costs.

Depreciation

5.28 This should match the depreciation charge for the year indicated by the note in the financial statements on tangible fixed assets.

Cash Flow Statement

5.29 This schedule calculates a cash flow statement, as required by FRS 1 *Cash Flow Statements (revised 1996)*. The entries on this form are as follows:

- Cash is regarded as cash-in-hand, deposits and overdrafts repayable on demand (under one working day's notice).
- 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.
- Net debt is defined as borrowings under FRS 4 *Capital Instruments*, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans.
- An additional section on management of liquid resources is included in the cash flow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments.
- The standard requires a separate reconciliation of net cash flow to movement in net cash or debt.

Note 2 Funding Body Income

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| | |
|------|--|
| 5.30 | The purpose of this analysis is to ensure that all individual grants given for specific purposes are identified in a College's financial statements sufficient to satisfy the requirements of FRS 8 <i>Related Party Transactions</i> . |
| 5.31 | The minimum analysis may need to vary from year to year to provide users of the accounts with enough information to understand the activities of the College. |
| 5.32 | The note should provide sufficient information to allow the reader to understand the major types of income received from each funding body, whether this income is received through a direct funding arrangement or through a third party organisation (often termed "managing agents"). It will include as a minimum: |
| a | appropriate funding body income: |
| | recurrent grant – allocation by funding body |
| | non recurrent grant income as a total |
| | release of capital grants – this line matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants) |
| b | HEFCE income: |
| | recurrent grant – include income received direct from HEFCE for prescribed HE, including that transferred from the appropriate funding body |
| | non recurrent grant income |
| | release of capital grants (as per (a) above) |
| c | Grants from other Funding bodies, such as the Training and Development Agency for Schools |
| 5.33 | Where the ultimate source of a material income stream is the funding bodies, then it is preferred that such income be shown within Note 2 regardless of whether it is earned directly or through a subcontract arrangement. <i>This may include:</i> |
| | <ul style="list-style-type: none"> • Work Based Learning |
| | <ul style="list-style-type: none"> • other income as a consortium member or subcontractor |
| | <ul style="list-style-type: none"> • Co Financed income |
| 5.34 | This presentation of relevant funding bodies' sourced income aligns the financial statements more closely with the Finance Record and reduces the level of inconsistency found in Colleges' accounts. For the avoidance of doubt, the existing treatment of HE income which may also be derived through a direct contract with HEFCE or through a franchise arrangement with a partner university, will continue such that the recurrent grant is shown in Note 2 but the franchised-in income should be presented in Note 3, Education contracts. Again, this enables a closer alignment with the existing finance Record requirements. |

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Adjustments to recurrent funding

5.35 In some cases, following receipt by the appropriate funding body of an audited learner record claim, or the issuance of a final reconciliation statement by the funding body, a College's recurrent funding for prior years may be adjusted in excess of the estimates included in their audited financial statements. Where this adjustment is not made in the year to which it relates, such further adjustment will be included in appropriate funding body grants on the face of the income and expenditure account and will need to be separately disclosed in the notes to the accounts where it is significant to the understanding of the accounts.

5.36 Such late adjustments will not however be significant or fundamental enough to justify a prior year adjustment in the financial statements.

5.37 Where an accrual is made for claw-back of recurrent funding, this should be included in "Creditors: amounts falling due within one year" and not in provisions.

Exceptional support funding

5.38 Some Colleges may still receive or have received in the past, exceptional support funding from the appropriate funding body in order to assist them in either implementing a College combination, or the delivery of a strategic recovery plan. This funding is provided as a grant, outside the mechanisms of the funding methodology. As with any grant, the accounting treatment should be determined in the light of any terms and conditions agreed between the appropriate funding body and the College.

5.39 Exceptional support funding should not be confused with advances of funding from the appropriate funding body which should be treated as a creditor in the balance sheet under "Payments received on account".

Note 3 Tuition Fees and Education Contracts

5.40 This note has previously been reduced in detail such that the *minimum* disclosure is as below. Colleges can add further disclosures where necessary to better the understanding of the user of the accounts.

- Tuition fees*
- Education contracts

* Note – where bursary payments are made out of tuition fee income received, these should be shown in other operating expenses and not netted off against the related income.

5.41 In addition Colleges should include a narrative stating the amount of tuition fees funded by bursaries, whether funded by the College itself or by another route.

Note 4 Research Grants and Contracts

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5.42 This note should provide sufficient information to allow the reader to understand the major sources of research project income upon which the institution is dependent. It will be up to individual institutions to determine the level of disclosure that is appropriate to their particular circumstances. This will include:

- European funds – revenue grant income from European structural funds. Colleges 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
- other funds – this will include for example income from the post-16 partnership and all income in respect of research carried out by the College.

Other Income

5.43 This note has been removed as a detailed requirement in the notes to the financial statements. The Finance record will continue to collect certain details about Other income but it will be up to individual institutions to determine the level of disclosure that is appropriate to their particular circumstances. Where grants, other than national funding bodies (see Note 2) are received other than for research (see Note 4) they should be disclosed as other grant income in this note.

Note 5 Endowment and Investment Income

5.44 This will include:

- investment income – include any other investment income earned, such as income from the investment of short-term funds and the realisation of investments held as long-term funds. Income derived from investment assets held for restricted (specific) purposes imposed by the donor or funder will normally be recognised in the income and expenditure account in full as a credit on a receivable basis. Any endowment income earned in excess of that applied to the restricted (specific) purpose should be transferred from the income and expenditure account after the result for the year has been struck, to accumulated income within endowment funds in the balance sheet.
- interest received and receivable – include interest from all sources.
- pension finance income – the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off. The net figure should be included either in endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 of Casterbridge) and the **net** figure included either in the endowment and investment income note (Note 5 in Casterbridge) or in the interest and other finance costs note (Note 9 in Casterbridge).

5.45 The finance record does not ask Colleges to provide details of any endowments.

Note 6 Staff Costs

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5.46 Staff costs will include basic payroll costs, overtime and other allowances and additions, employers' superannuation costs, employers' national insurance contributions, premature retirement costs and redundancy costs. It should include full-time and part-time staff, temporary staff and those on fixed-term contracts. Do not include reimbursement of expenses paid via the payroll – for completeness in the Financial Statements they should be treated as non-staff costs.

Contracted out staff costs should continue to be included as the pay costs of agencies used for providing tuition and other staffing services.

5.47 The previous requirement to analyse costs over department headings has been removed to reduce the disclosures to teaching and non teaching staff FTE numbers only as a minimum disclosure. As before, Colleges may expand the analysis to suit their own circumstances and may wish to consider the impact of restructuring costs, FRS 17 and contracted out staffing costs as additional levels of disclosure as appropriate.

Higher paid staff

5.48 The total number of higher paid staff, including senior post-holders, in bands of £10,000 (above a threshold of total emoluments of £60,000, in line with that found in the Charities SORP), should be disclosed in the interests of public accountability in the staff costs note. The number of senior post-holders within each band should be separately identified within the note.

Note 7: Senior Post-holders' Emoluments

5.49 Colleges are required to disclose the following in their financial statements:

- the emoluments of the Principal. Where there has been more than one Principal during the course of the year, the emoluments should be disclosed **separately**.
- the aggregate emoluments of the College's senior post-holders (see below)
- the aggregate emoluments of the corporation's members
- the emoluments of the highest paid senior post-holder, if not the Principal
- emoluments due to a senior post-holder but waived by the post-holder
- the number of senior post-holders (in bands of £10,000), including the Principal (this information may be combined with similar information for all higher paid staff) **but without the de minimus threshold of £60,000**
- the aggregate amount of any compensation paid to senior post-holders or past senior post-holders for loss of office
- the number of post-holders who have been paid such compensation.

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5.50 The term “senior post-holders” is defined in the articles of government for each College as “the Principal and holders of other such senior posts as the governing body may determine for the purposes of the articles of government of the College relating to the appointment and promotion of staff”. Colleges may wish to list senior post-holders in the members’ report, together with their dates of appointment and, where relevant, resignation.

5.51 “Senior post-holders’ emoluments” means emoluments paid to, or receivable by, any person for:

- services as a senior post-holder of the College
- services as a director or officer of any subsidiary of the College, during the period of appointment as a senior post-holder.

5.52 For this purpose, “emoluments” paid to, or receivable by, a senior post-holder include the normal remuneration salary, and the following:

- fees
- any expense allowances (to the extent that they are chargeable to UK income tax)
- contributions *paid* for the senior post-holder under a pension scheme
- the estimated money value of any benefits received other than in cash
- emoluments for any person accepting office as a senior post-holder.

Note – the emoluments above do not include any adjustments arising from FRS 17 otherwise included within the staff costs note

5.53 Senior post-holders’ emoluments should not include the employer’s national insurance contributions. Compensation for loss of office is a category of payment different from an “emolument”. Consequently, it should not be included in that person’s emoluments for banding purposes. Compensation for loss of office includes:

- any amount paid in connection with a senior post-holder’s retirement
- the estimated monetary value of benefits received or receivable other than in cash and, where compensation is given in kind, disclosure of its nature
- any top-up or enhancement to the pension scheme.

5.54 The normal remuneration salary of staff governors who are not senior post-holders does not need to be disclosed separately.

5.55 If more than one person has held the post of Principal during the year, each such person’s total emoluments for the year must be attributed to that part of the year during which they were Principal, and these amounts must be disclosed separately.

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5.56 The disclosure of the Principal's and other senior post-holders' emoluments set out in Note 7 to the model financial statements has been amended to show the analysis between:

- salaries
- benefits in kind
- pension contributions paid

5.57 The figures are analysed as above in response to comments from users of Colleges' accounts that disclosure of only the total figures gave a misleading impression of the actual salaries of Principals and senior post-holders.

Severance payments

5.58 Colleges are required to disclose the amount of severance costs for each year and state whether these were approved by the corporation or a committee established by the corporation for this purpose.

Governors' expenses

5.59 In certain cases, it is deemed justifiable to compensate governors for the costs of childcare and loss of earnings. The governing body will need to consider each case for an exceptional payment on its merits and be satisfied that there is no remunerative element to it. **Colleges are required to disclose full details of any such payments made to governors in their financial statements.**

Note 8 Other Operating Expenses

5.60 A breakdown of information is requested for non-pay expenditure using the broad headings of teaching, non teaching and premises. This analysis assists the appropriate funding body in responding to queries on teaching costs versus administration costs.

5.61 Other operating expenses includes materials, consumables, uncapitalised equipment, stationery, travel and subsistence, postage, telephone charges, books, periodicals, copyright licences, advertising, relocation contributions, consultancy fees, and insurance and revenue building works. These expenses should be included in the appropriate expense categories below.

Teaching costs

5.62 This item will include:

- revenue expenditure on teaching and demonstrating, including teaching materials and consumables, teaching equipment purchase and maintenance, printing and stationery, teaching transport and field trip costs
- any costs associated with teaching-related activities such as training restaurants, hairdressing and beauty salons, as the income from these should be credited to the teaching function
- any advertising, promotional and marketing expenditure charged to teaching departments

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|--|
| <ul style="list-style-type: none"> any commercial non-core costs, including the commercial use of teaching facilities (for example sports halls), managing agency administration expenditure, expenditure associated with consultancy projects, or other commercial activities charged to teaching departments |
| <ul style="list-style-type: none"> prison contracts and partnerships. |
| <ul style="list-style-type: none"> 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 College library |
| <ul style="list-style-type: none"> 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 |
| <ul style="list-style-type: none"> additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme, in order to help an individual learner to complete his or her learning programme. This could include the cost of a diagnostic assessment, specialist support, transport between College sites and materials. Equipment purchases will not be included here |
| <ul style="list-style-type: none"> learner guidance on enrolment |
| <ul style="list-style-type: none"> any non-pay recharge from the Learner Support Fund |
| <ul style="list-style-type: none"> payment to student unions |
| <ul style="list-style-type: none"> recreation services such as non-curricular music, drama and sport |
| <ul style="list-style-type: none"> medical services |
| <ul style="list-style-type: none"> learner services such as careers advisory services, welfare services and specific charges for counselling |
| <ul style="list-style-type: none"> learner transport. |
| <ul style="list-style-type: none"> staff training (including costs of seminars) |
| <ul style="list-style-type: none"> print services |
| <ul style="list-style-type: none"> expenditure on facilities such as theatres and galleries, except those run by teaching departments |
| <ul style="list-style-type: none"> curriculum-development costs |
| <ul style="list-style-type: none"> nursery and work placements. |

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Non teaching costs

5.63 This will cover the general running costs of the College and those specifically charged to central services, such as:

- revenue costs of administrative computing
- bank charges (excluding interest charges)
- legal and audit fees
- insurance premiums other than buildings insurance, which should be included in premises costs
- travel and subsistence costs of the principalship and administrative staff
- recruitment costs, surveyors' fees, postage, telephones, subscriptions and payroll services
- copyright licence, revenue-running costs of payroll, central licences
- administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.
- marketing costs such as overseas learner recruitment costs, publicity and promotion, including course advertising, prospectuses, market research, except where these are charged directly to College teaching departments
- examination costs

Premises

5.64 This will include:

- running costs other than maintenance – for example, heating, lighting, cleaning, caretaking, water charges, security, insurance and national non-domestic rates
- maintenance – short- and long-term maintenance costs, for example, unblocking drains and repairing breakages
- rents and leases – the cost of acquiring space which is not owned by the College, including:
 - moving costs, refurbishment costs
 - minor building improvements and alterations not capitalised.

Payments to non-College partners

5.65 As before, where a College considers it necessary for the better understanding of the accounts, then costs associated with for example payments to non-College partners, should be disclosed separately.

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Exceptional items

5.66 Exceptional items are material items which derive from events or transactions falling within the ordinary activities of the College and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view (FRS 3 paragraph 5)

5.67 The amount of each exceptional item should be disclosed separately by way of a note, or on the face of the income and expenditure account, if that degree of prominence is necessary in order to give a true and fair view.

5.68 The following exceptional items, including provisions in respect of such items, should be shown separately on the face of the income and expenditure account **after** the operating surplus or deficit in accordance with FRS 3, paragraph 20:

- surplus or deficits on the sale or termination of an operation
- costs of a fundamental reorganisation or restructuring which have a material effect on the nature and focus of operations
- surplus or deficits on the disposal of fixed assets.

5.69 The equivalent disclosures to those found under the Companies Act in respect of operating lease rentals, auditors' remuneration, profits and losses on disposal of assets should remain as a footnote to the other Operating Expenses disclosures.

Note 9 Interest and other finance costs

5.70 This should be split into Interest on enhanced pension provisions brought forward from the provisions note in the financial statements, and other interest payable. The latter includes interest on long-term loans, bank overdrafts and local authority deficit loans.

5.71 Pension finance costs - the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off. The **net** figure should be included either in endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 of Casterbridge) and the net figure included either in the endowment and investment income note (Note 5 in Casterbridge) or in the interest payable note (Note 9 in Casterbridge).

Note 10 Taxation

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

Note 12 Tangible Fixed Assets

5.73 Land and buildings inherited on incorporation should be capitalised and included in the

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balance sheet at valuation. Land and buildings acquired after incorporation, whether funded by capital grant or not, should be included in the balance sheet at cost inclusive of any irrecoverable VAT.

5.74 A number of Colleges occupy premises which are owned by other bodies and for whose occupancy no rental payment **or a nominal rental payment** is required. In some cases there may be no formal agreement to occupy. The notes to the financial statements should disclose the full circumstances in order to give the reader of the financial statements an understanding of the College's position, regardless of whether the College has valued the occupancy as required under the 2007 SORP.

5.75 The inclusion of equipment in the balance sheet requires three matters to be determined:

- definition of equipment
- threshold value(s) at which it should qualify to be capitalised and included in the balance sheet rather than being written off in the income and expenditure account
- basis/bases for depreciation.

5.76 Given the range of Colleges in the sector, it would be inappropriate for the funding bodies to seek to constrain Colleges by defining these matters for the sector as a whole. Colleges should determine their own policies in consultation with their financial statements auditors. In setting threshold values for capitalisation, Colleges may wish to consider the impact on their inventory records and fixed assets register. For example, all capitalised equipment will need to be recorded and each year it will need to be depreciated.

5.77 Fixed assets include:

- inherited land and buildings – the value of land and buildings acquired on vesting day
- the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation
- the value of all other land and buildings valued at cost or subsequent revaluation
- the value of equipment acquired on vesting day
- the value of equipment acquired post-vesting day, funded by capital grant and valued at cost
- the value of all other capitalised equipment valued at cost or subsequent revaluation
- investments held as long-term assets and endowment assets valued at the lower of cost or market value
- other fixed assets such as intangible assets, that is, licences, milk quotas and financial instruments

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5.78 FRS 15 *Tangible Fixed Assets* addresses the initial measurement, valuation and depreciation of tangible fixed assets (with the exception of investment properties). Its main objective is to ensure that consistent principles are applied by organisations.

Initial measurement

5.79 A tangible fixed asset should initially be measured at its cost. This includes those costs directly attributed to bringing the asset into working condition for its intended use and may include:

- acquisition costs (for example, stamp duty)
- cost of site preparations and clearance
- initial delivery and handling costs
- installation costs
- professional fees
- labour costs of own employees.

5.80 If a College wishes to capitalise any labour costs of its own employees, it should consult its financial statements auditor.

5.81 The initial carrying amount of tangible fixed assets received as gifts or donations should be the current value at the date which they are received. FRS 15 recognises that in some cases (particularly in the not-for-profit and charity sectors), an entity receives gifts and donations of tangible fixed assets. The cost of such assets is taken to be the value of the assets at the date which they are received. The valuation of inherited assets on incorporation at 1 April 1993, therefore, represents the **initial measurement** of these assets and, as such, does not constitute a revaluation, which would need to be kept up to date in accordance with the proposals set out in FRS 15.

5.82 **Finance costs** that are directly attributable to the construction of tangible fixed assets **may** be capitalised. Capitalisation of finance costs should cease when substantially all the activities necessary to make the asset ready for use are complete. Where an organisation adopts a policy of capitalisation of finance costs, it should be applied consistently. The total amount of finance costs capitalised in a period should not exceed the total amount of finance costs incurred during that period.

5.83 Where a capital project is delayed significantly then it may **not** be appropriate to continue to capitalise finance costs. FRS 15 para 27 states “capitalisation of finance costs should be suspended during extended periods in which active development is interrupted”. Colleges should discuss this with their auditors at the earliest opportunity if it is considered to be a relevant issue.

5.84 If the amount recognised when a tangible fixed asset is acquired exceeds its recoverable amount then it should be written down to its recoverable amount (refer to FRS 11 *Impairment of Fixed Assets and Goodwill*).

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5.85 Subsequent expenditure to ensure that the tangible fixed asset maintains its previously assessed standard of performance should be recognised in the income and expenditure account as it is incurred. There are three exceptions to the above rule:

- where economic benefits are enhanced in excess of the previously assessed standard of performance
- where a component that is treated separately for depreciation purposes is replaced or restored
- where economic benefits that have previously been reflected in depreciation are restored.

Valuation

5.86 Specific guidance on the accounting policy for valuations is provided at paragraphs 76 to 89 of the SORP, the link to which is provided at Chapter 3 of this Handbook.

5.87 Revaluation gains and losses should be reflected in accordance with FRS 3 *Reporting Financial Performance*, as summarised in Table 5.2.

Table 5.2: Treatment of revaluation gains and losses.

| Gain or loss | Statement of total recognised gains and losses account | Income and expenditure |
|---|--|--|
| Gain reversing a loss previously recognised in income and expenditure account | | Gain less depreciation would have been charged if loss recognised |
| Other gains | Gain | |
| Loss caused by the clear consumption of economic benefits | | Loss |
| Other losses | Loss until carrying amount reaches depreciated historic cost | Balance of loss: unless recoverable amount is greater than revalued amount, then difference goes into the statement of total recognised gains and losses |

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Depreciation

5.88 Depreciation should reflect the pattern in which an asset's economic benefits are "consumed". FRS 15 paragraph 2, defines consumption as including "the wearing out, using up or other reduction in the useful economic life of a tangible fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset." The depreciation charge for each accounting period should be recognised as an expense in the income and expenditure account. FRS 15 confirms that subsequent expenditure, which maintains or enhances a tangible fixed asset, does not negate the need to charge depreciation since all tangible fixed assets (except for land) have finite lives.

Disclosure

5.89 FRS 15 requires the following information to be disclosed separately in the financial statements for each class of tangible fixed assets:

- the depreciation methods used
- the useful economic lives or the depreciation rates used
- total depreciation charged for the period, split between any accelerated depreciation and the normal annual charge as appropriate.
- where material, the financial effect of a change during the period in either the estimate of useful economic lives, or the estimate of residual values
- the cost or revalued amount at the beginning of the financial period and at the balance sheet date
- the cumulative amount of provisions for depreciation or impairment at the beginning of the financial period and at the balance sheet date
- a reconciliation of the movements, separately disclosing additions, disposals, revaluations, transfers, depreciation, impairment losses and reversals of impairment losses written back in the financial period
- the net carrying amount at the beginning of the financial period and at the balance sheet date

Impairment

5.90 FRS 11 *Impairment of Fixed Assets and Goodwill* relates to tangible fixed assets and goodwill. Investment properties and most investments are excluded from the scope of the FRS. However, investments in subsidiary undertakings, associates and joint ventures **are** included within the scope of FRS 11.

5.91 Impairment is to be measured by comparing the carrying value of a fixed asset with its recoverable amount. The recoverable amount is the higher of the amount that could be obtained from selling the fixed asset (net realisable value), or using the fixed asset (value in use).

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5.92 If it is not possible to test a single fixed asset for impairment because the cash flows on which the calculation is based do not arise from a single asset, then the test may be applied to a group of assets (an income generating unit – IGU), which produces a largely independent income stream. FRS 11 provides guidance on identifying IGUs. In the context of the FE sector, in many cases the College as a whole may be the only IGU. However, IGUs may include:

- a school or department
- a site
- a management centre
- assets held for disposal.

5.93 It is not necessary to carry out an impairment review each year; only if there is an **indication** that impairment has occurred does a review need to be performed. FRS 11 provides examples of indicators of impairment, including:

a a current period operating loss in the business in which the fixed asset or goodwill is involved or net cash outflow from the operating activities of that business, combined with either past operating losses or net cash outflows from such operating activities or an expectation of continuing operating losses or net cash outflows from such operating activities

b a significant decline in a fixed asset’s market value during the period

c evidence of obsolescence or physical damage to the fixed asset

d a significant adverse change in either the business or the market in which the fixed asset or goodwill is involved, such as the entrance of a major competitor, or a significant change in the statutory or other regulatory environment in which the business operates

e any “indicator of value” (for example, turnover) used to measure the fair value of a fixed asset on acquisition

f a commitment by management to undertake a significant reorganisation

g a major loss of key employees; and

h a significant increase in market interest rates or other market rates of return that is likely to affect materially the fixed asset’s recoverable amount.

5.94 Examples (c), (d), (e), (f) and (g) above appear to be most relevant to the FE sector. However, a current period historical loss is considered to be a better indicator of impairment for Colleges than a current period operating loss (example (a)). Example (b) is unlikely to apply, since the majority of College buildings are specialised buildings, valued at depreciated replacement cost rather than open market value.

5.95 Other examples of impairment indicators specific to the sector would include a significant under-performance against a College’s funding agreement with the appropriate funding body (or another major funding source) and a withdrawal from certain areas of provision.

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5.96 Such indicators can exist without having an adverse impact on the measurement of fixed assets. However, if impairment is identified, FRS 11 states that it is appropriate to review the useful economic lives and residual values of the relevant fixed assets, as these may have been affected.

5.97 In summary, if no indicators of impairment are identified there is no requirement to carry out an impairment review. It should be noted though that the revision of the useful economic life often brought about under an accommodation strategy (discussed further in Chapter 6) does not necessarily result in an impairment and the consequent charges to the income and expenditure account should not be described as such. It is the preferred approach of the funding bodies that Colleges first consider the “accelerated depreciation” approach before considering whether the triggers in FRS 11 are applicable to their circumstances. This is based on the presumption that where Colleges inherited assets on incorporation, the majority also assumed that the buildings elements had a useful economic life of 50 years which in many cases has proved to be an overestimate. The need for an additional write down of the carrying value of those buildings is therefore judged to be as a result of a clear consumption of economic benefits and as such should be charged to the Income and Expenditure account in the year in which it is identified.

5.98 FRS 11 requires an impairment loss to be recognised in the income and expenditure account ***unless it arises on a previously revalued asset*** and as the above indicates, this does ***not*** include the initial valuation of assets inherited on incorporation.

5.99 An impairment loss on a revalued fixed asset should be fully recognised in the income and expenditure account if it is due to a “clear consumption of economic benefits”. Otherwise, the impairment should be recognised in the statement of total recognised gains and losses (STRGL) until the carrying amount falls to the amount of the asset’s depreciated historical cost, and thereafter in the income and expenditure account.

5.100 Where the recoverable amount of a fixed asset increases as a result of a change in economic conditions or the expected use of the asset, then the reversal of any previous impairment loss will be recognised.

Disposal of fixed assets

5.101 The profit or loss on disposal of a tangible fixed asset will be accounted for in the income and expenditure account of the period when the disposal occurs. It is the difference between the net sale proceeds and the carrying amount, whether carried at historical cost or valuation. **When the net amount of the profit or losses is not material, but the gross profits or losses are material, the relevant heading should still appear on the face of the profit and loss account with a reference to a related note analysing the profits and losses in accordance with paragraph 20 of FRS 3.**

5.102 The accounting treatment for disposal of assets will depend on how the acquisition of those assets was financed and how a College intends to use the proceeds. For these purposes, assets broadly fall into one of three categories:

- inherited by Colleges on incorporation
- financed by exchequer funds

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- financed from College's own resources.

Financial memorandum

5.103 Where the College wishes a disposal of, or the renting or leasing of property to a third party, the College should seek to secure the best obtainable value for money.

5.104 Where the College is proposing to dispose of, or lease or rent, land and buildings which have been acquired by exchequer funds, the College may be required to surrender some or all of the proceeds. This represents a contingent liability for the College. This amount is calculated to represent the unamortised value of exchequer funded capital grants received in respect of assets but should be varied in the light of more appropriate information. Colleges may wish to consider disclosing the contingent liability alongside other contingent liabilities instead if that aids the user of the accounts.

5.105 The funding bodies would expect Colleges to apply the proceeds of land and buildings sales to the investment in land and buildings. Colleges should seek independent professional advice when disposing of land and buildings.

5.106 Exchequer funds include any grants from the funding bodies and other government bodies. They do not include funds from local education authorities (LEAs): ***inherited assets are not classed as exchequer-funded assets.***

5.107 In giving consent to any disposal, the funding bodies will consider the potential effect on adequacy and sufficiency of provision. Where there is a potential risk to provision, conditions are likely to be attached to the consent to the disposal. The funding bodies would wish to preserve the asset base and may require the proceeds to be retained in a separate bank account until they are applied to replacement facilities.

Accounting treatment

5.108 For assets fully financed by grant and inherited assets, the historical cost surplus on disposal will generally be equal to the net proceeds.

5.109 Colleges must disclose, by way of a note, the amount of disposal proceeds that they hold and for what purpose (almost without exception, this will be for reinvestment in land and buildings). The note should form an extension to the existing note on changes in net funds, and might be worded as follows:

"£1.5 million of the funds in current asset investments is derived from the sale of the Westwick site and is held [in a separate ring-fenced bank account] for reinvestment in the main site. (*where applicable)"*

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5.110 The funding bodies expect Colleges to track the utilisation of these funds on an ongoing basis. In doing so, Colleges should ensure that any related grant funding is deducted from the eligible expenditure first in determining the amount that has been utilised from the unspent proceeds. For the Westwick site example above, if the College has eligible expenditure of £1 million against which capital grant funding is available of £400,000, then the amount to be deducted from those unspent funds will be £600,000, leaving £900,000 held for reinvestment. Colleges should include within their accounts a reconciliation table showing the movements in such funds where this is material to the users of those accounts.

5.111 If the planned reinvestment of proceeds is part of a complex funding package including, for example, loan finance, future disposal proceeds and so on, it is recommended that the above disclosure is expanded as necessary in order to ensure that users of the financial statements have a clear view of the underlying funds of the institution.

5.112 The amount held from previous sales of fixed assets should be shown in the finance record as “Restricted cash and short-term investments from disposal of fixed assets and held for future fixed-asset acquisitions” until the College uses the proceeds on future fixed asset acquisitions (or has set them off against property strategy costs as above).

Accounting for leases

5.113 A finance lease should be recorded in the lessee’s balance sheet as an asset and an obligation to pay future rentals. Rentals payable should be apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable. The total finance charge under a finance lease should be allocated to accounting periods during the lease term, so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period, or a reasonable approximation thereof. Colleges may use any of the three methods of achieving this, which are given in the guidance notes to SSAP 21 *Accounting for Leases and Hire Purchase Contracts*.

5.114 An asset leased under a finance lease will be depreciated over the shorter of the lease period or its useful economic life. In the case of a hire purchase contract, which has the characteristics of a finance lease, the asset should be depreciated over its useful life.

5.115 The rental under an operating lease should be charged on a straight-line basis over the lease term, even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate. The accounting for inherited leases should follow the recommendations set out in this and preceding paragraphs.

5.116 Under SSAP 21, the accounting treatment adopted for a lease will depend on whether it is a finance lease or an operating lease. A finance lease is defined as one which transfers to the lessee substantially all the risks and rewards of ownership; all other leases are classified as operating leases.

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5.117 The underlying concept of SSAP 21 is that the method of accounting for a lease should reflect the commercial substance of the arrangement and the relationship between the parties concerned. A finance lease creates a set of circumstances that, from the lessee's point of view, is in substance similar to the outright purchase of an asset financed by borrowing from the lessor. As a result, the recommended accounting practice is that a finance lease should be recorded in the lessee's balance sheet as an asset and an obligation to pay future rentals.

Leasehold property

5.118 Institutions should disclose the length of any leases that they hold for leasehold property included in fixed assets.

Milk quotas

5.119 The preferred treatment is to show milk quotas in the accounts at cost and depreciated over their useful economic life. In most cases cost will be nil, since the quotas were inherited from the College's LA. In practice, therefore, this may have little impact on a College's accounts, other than disclosing that the College has an asset. Where a cost does exist, the College should treat it as an *intangible* asset and disclose it separately from tangible fixed assets.

Note 14 Endowment Assets

5.120 An analysis between listed and unlisted investments should be provided where relevant. The presentation of endowment asset investments in the balance sheet as a separate heading between fixed and current assets may require a true and fair override to depart from the statutory balance sheet formats if the institution is a limited company.

Current Assets

5.121 The notes to Colleges' financial statements should provide further information about each material current asset shown on the balance sheet. Detailed guidance on key disclosures is set out below.

Stocks

5.122 The value of stocks, such as farm stocks, should be brought into account at the lower of cost and net realisable value in accordance with the principles established by SSAP 9 *Stocks and Long-term Contracts*. If goods are sold subject to reservation of title, the disclosures set out in the Council of the Institute of Chartered Accountants' 1996 accounting recommendation *Accounting for Goods Sold Subject to Reservation of Title* should be followed.

Long-term debtors

5.123 Debtors due after more than one year should be disclosed in the notes to the accounts in accordance with UITF Abstract 4 *Presentation of Long-term Debtors in Current Assets*, unless they are sufficiently material as to require disclosure on the face of the balance sheet.

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Current asset investments

5.124 Current asset investments should be included in the balance sheet at the lower of their original cost and net realisable value. This category may include fixed assets held for resale, where an estates strategy is in progress. Where significant, the category of “non current assets held for resale” should be disclosed on the face of the balance sheet and an appropriate analysis included within the notes.

Trustee Investment Act 1961

5.125 Colleges are required to make investments in accordance with the Trustee Investment Act 1961 (TIA 1961). Under the TIA 1961, charities were permitted to divide their investments equally between wider range and narrower range investments (if they choose to invest in wider range investments at all).

5.126 Under sections 70 and 71 of the Charities Act 1993, the Secretary of State was empowered to regulate in order to vary the proportion and types of investments which charities may make. The Charities (Trustee Investment Act 1961) Order 1995 (SI 1995 No. 1092) allows the value of the wider range part of the investment fund to be three times the value of the narrower range fund.

Trustee Act 2000

5.127 Under section 19(4)(d) of the Further and Higher Education Act 1992, Colleges have the power to invest any sums of money not immediately required for carrying out their activities.

5.128 Colleges have been advised that in making investments they were subject to the provisions of the Trustee Investments Act 1961.

5.129 The Trustee Act 2000 has amended the Trustee Investments Act 1961 and the amendments will apply to Colleges who obtained powers to make investments after 1961.

5.130 The amendments include a new general power of investment, permitting any kind of investment (excluding land) which trustees would be allowed to make if they were the absolute owners of those funds. Power to invest in land is effectively given in a separate section.

5.131 In making investments, Colleges should have regard to the financial memorandum and any other terms and conditions attached to specific grants.

Related party transactions

5.132 The 2007 SORP (paragraph 231) overrides the exemption in FRS 8 *Related Party Disclosures* with regard to the disclosure of transactions with government departments and their sponsored bodies. For this reason the value of transactions with the funding bodies in particular, are disclosed on the face of the income and expenditure account, in the balance sheet (for deferred capital grants) and in the relevant notes to the accounts. This latter part applies to the amounts due to and from the funding bodies at the year end with the result that the debtors note should include a specific line to that effect.

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Liabilities - Notes 16 and 17

5.133 The notes to Colleges' financial statements should provide further information about each material liability shown on the balance sheet. In determining the analysis of liabilities between current and non current liabilities, Colleges should give due consideration to the conditions existing at the balance sheet date. For example, it is not unusual for a College to have a technical breach of the covenants concerning an external loan as at the balance sheet date, through perhaps interest cover being insufficient or two consecutive years of a deficit result. Under FRS 25, these technical breaches at the balance sheet date mean that the loan is now repayable on demand and should **not** be allocated between amounts falling due within one year and those falling due outside one year. All amounts due under the affected loan arrangements will be treated as current liabilities in this instance.

5.134 Where appropriate Colleges should disclose the analysis of bank and other borrowings, using the five year analysis tables provided as an example in Note 18

Note 19 Provisions for liabilities

5.135 This note shows combined figures for the group and the College on the assumption that all provisions relate solely to the College.

5.136 Under FRS 12 *Provisions, Contingent Liabilities and Contingent Assets*, a provision should only be recognised when "an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation".

5.137 Provisions can be distinguished from other liabilities such as trade creditors and accruals, because there is uncertainty about the timing or amount of the future expenditure required in settlement.

5.138 Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

5.139 A provision should be used only for expenditures for which the provision was originally recognised.

5.140 A restructuring provision should be made only where there is a legal or constructive obligation. A constructive obligation is present only when a College has drawn up a detailed formal plan and has announced, or begun to implement, that plan prior to the balance sheet date. In practice, a constructive obligation would exist, for example, once a written offer had been made to individuals.

5.141 A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity.

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| |
|---|
| 5.142 A restructuring provision does not include such costs as: |
| <ul style="list-style-type: none">• retraining or relocating continuing staff |
| <ul style="list-style-type: none">• marketing; or |
| <ul style="list-style-type: none">• investment in new systems and distribution networks. |
| 5.143 These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognised on the same basis as if they had arisen independently of a restructuring. |
| Disclosure |
| 5.144 For each class of provision, an entity should disclose: |
| <ul style="list-style-type: none">• the carrying amount at the beginning and end of the period |
| <ul style="list-style-type: none">• additional provisions made in the period, including increases to existing provisions |
| <ul style="list-style-type: none">• amounts used (that is, incurred and charged against the provision) during the period |
| <ul style="list-style-type: none">• unused amounts reversed during the period |
| <ul style="list-style-type: none">• the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate. |
| 5.145 Comparative information is not required. |
| 5.146 An entity should disclose the following for each class of provision: |
| <ul style="list-style-type: none">• a brief description of the nature of the obligation, and the expected timing of any resulting transfers of economic benefits |
| <ul style="list-style-type: none">• an indication of the uncertainties about the amount or timing of those transfers of economic benefits. Where necessary, in order to provide adequate information an entity should disclose the major assumptions made concerning future events |
| <ul style="list-style-type: none">• the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement. |
| Pension provisions |
| 5.147 FRS 12 <i>Provisions and Contingencies</i> requires that provisions for staffing reorganisations should be recognised when – and only when – the entity is demonstrably committed to the reorganisation. An entity is demonstrably committed when it has a detailed plan for, and cannot realistically withdraw from, the reorganisation. |

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5.148 Where a decision has been made that an employee will take early voluntary retirement in one accounting period but that the individual will not cease employment until the following period, the charge to the income and expenditure account for any pension provision or capital sum payable to the relevant pension scheme should only be made once a written offer has been made to the individual concerned.

Enhanced pensions provisions

5.149 Enhancements of premature retirement compensation can give rise to two types of additional cost:

- an increase in a member of staff's lump sum payment on retirement
- an increase in their annual pension.

5.150 It is not possible under the TPS or the Local Government [Pension/ Superannuation] Scheme (LG[P/S]S) to enhance an individual's service so as to provide an enhanced lump sum without at the same time enhancing the annual pension.

5.151 The actual cost of any enhanced ongoing pension to a former member of staff is paid by a College annually. However, it is a requirement of FRS 17 *Retirement Benefits* that an estimate of the expected future cost of any enhancement to the ongoing pension of a former member of staff will need to be made and charged in full to the College's income and expenditure account in the year that the member of staff retires. (This follows the principle that the future costs to a College of an individual's pension enhancement should be fully accounted for during the period that the College benefits from the employee's services.) In subsequent years a provision needs to be made in the balance sheet.

5.152 Colleges must use the tables supplied in calculating any provision for enhanced pension. ***The use of these tables is mandatory unless a more accurate estimate can be obtained from the College's actuaries.*** The tables were updated in 2010 for more recent mortality tables amongst other things and further updated versions for market indices will be issued shortly after the 31st July 2012 when these are known.

5.153 In some instances, Colleges may find that the calculation of liabilities for enhanced pensions has been inextricably bound into the overall FRS 17 valuation. As the termination benefit for enhanced pensions has been calculated on a close approximation to that under FRS 17 it is unlikely that a material difference will arise, either in the level of the provision or in the amounts charged through the STRGL. The remaining differences will be of classification within the balance sheet only and not affect the net position of the College. It is likely that it would be impractical to obtain the information required to separate out the two provisions adequately and so the totals from the actuarial report should continue to be used. Colleges should however note that under FRS 17 Revised, the element of the provision relating to unfunded liabilities (which is what the enhanced pensions effectively are), will need to be analysed out in the notes to the accounts.

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Charge for the enhanced pension provision to the income and expenditure account

5.154 The funding bodies would expect the charge for any movement in the College's enhanced pension provision to be charged to:

- staff costs – staff restructuring: enhanced pension charge
- non-pay expenditure – interest on enhanced pension provision.
- statement of recognised gains and losses - actuarial gain/(loss)

5.155 If the amount charged to the income and expenditure account is material, then the College should separately disclose the "exceptional" amount on the face of the income and expenditure account.

Enhanced pension (EPP) spreadsheet use and disclosures

5.156 The disclosures of key assumptions for the EPP in Casterbridge College use terminology which is not directly related to that found in the spreadsheet.

Disclosure requirements for assumptions:

(m) the principal actuarial assumptions used as at the balance sheet date, including, where applicable:

- (i) the discount rates;*
- (ii) the expected rates of return on any assets of the scheme for the periods presented in the financial statements;*
- (iii) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a scheme as the basis for future benefit increases);*
- (iv) retirement healthcare cost trend rates; and*
- (v) any other material assumptions used.*

The discount rate would fall under i) and inflation would fall under iii). It is usual to see discount and inflation disclosed however as the discount and inflation rate can be obtained from the interest rate and net interest rate:

Discount rate = Interest rate

Inflation = Interest rate less Net Interest rate

The mortality tables used were the S1A tables with year of birth and a 95% scaling factor, with a medium cohort improvement and a 1% per annum minimum improvement rate.

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Expected Life Expectancy for someone aged 65 in 2009:

Males 21.73

Females 24.50

Expected Life Expectancy for someone aged 65 in 2019:

Males 22.71

Females 25.47

The above data are provided to assist colleges in making the appropriate disclosures in their accounts regarding key financial and other assumptions underpinning provision and for no other purpose. Updated indices will be published separately as soon after the 31st July 2012 as is practicable.

Note 20 Deferred Capital Grants

Accounting for grants

5.157 Any grants received from public funds (for example, from the funding bodies or HEFCE) should be accounted for in accordance with SSAP 4 *Accounting for Government Grants*. This means that the income should be matched to the relevant expenditure. Any capital grant received should be credited to a deferred capital grant account and not deducted from the purchase price of the assets concerned. The amount of the grant should be credited to the income and expenditure account over the useful economic life of the related asset, on a basis consistent with the depreciation policy. If a capital grant is received before the purchase of the relevant asset, then the grant should be held in payments on account until spent.

5.158 Where the conditions attached to an award of a grant state that the grant should be directed towards capital expenditure, it should be treated as a deferred capital grant.

5.159 Parallel to this, the 2007 SORP considers (at paragraph 155) the accounting treatment of donated assets and draws the distinction between land and between buildings in determining the accounting entries. Specifically the value of donated land is stated to be credited directly to income on receipt rather than to a balance sheet reserve such as Deferred Capital Grants. Colleges should ensure that these principles have been applied to capital grant funding such that any grants received in respect of **land** are credited to the Income and Expenditure account rather than being held indefinitely on the balance sheet within deferred capital grants. This may require a prior year adjustment to correct the position and Colleges should consult with their auditors as to the adjustments required.

Capital funding from recurrent funds

5.160 There is no requirement for Colleges to spend an amount of their funding allocation for capital purposes. The amount of the funding allocation that an institution receives should be charged to the income and expenditure account. If an institution wishes to allocate an amount of their funding allocation for capital purposes then this should be funded from their cash reserves. The accounting treatment should be as in Table 5.3 below.

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Table 5.3: Accounting treatment of allocations of capital funding.

| | Debit | Credit |
|--|--------------------------------|--------------------------------|
| Total main funding allocation received from the funding bodies | Bank account | Income and expenditure account |
| Expenditure funded from allocation and capitalised | Fixed assets | Bank account |
| Expenditure funded from allocation and not capitalised | Income and expenditure account | Bank account |

5.161 Whether the expenditure has been capitalised or not, the accounting treatment for the recurrent grant income from the funding bodies remains the same, that is, the income should be charged direct to the income and expenditure account.

Capital Support From the Responsible Funding Bodies

5.162 Capital support from the relevant funding body should be treated by Colleges as a capital grant and the rules of SSAP 4 would apply .

5.163 It may be appropriate for Colleges to set up debtor accounts depending upon the completeness of the project. For example, if a College's capital project is 50 per cent complete, then 50 per cent of the grant would be accounted for as a debtor, if no capital grant had been paid by the funding bodies.

Consent Only Projects

5.164 Colleges will need to seek the consent of their main funding body if the cost of the project or the level of borrowing is greater than the thresholds laid down by the college's respective funding body. Colleges are advised to discuss their plans for consent only projects with their funding body.

One-off grant

5.165 Funding body support for major works may exceptionally be given by means of a one-off grant payment. This sum should be treated as a deferred capital grant and be released to the income and expenditure account over the life of the asset.

Significant donations used for capital purposes

5.166 A number of Colleges have been successful in gaining donations from charitable and commercial bodies, for example through Gift Aid or lottery funding. Colleges should account for significant donations used for capital purposes in accordance with SSAP 4. General donations for non-specified purposes should be credited directly to the income and expenditure account. The 2007 SORP contains additional guidance in this respect and should be reviewed accordingly to determine the correct accounting treatment and disclosure.

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Note 21 Endowments

5.167 This note shows combined figures for the Group and the College because it is thought unlikely there will be endowments within a subsidiary. Where material, the aggregate accumulated unspent income held within specific endowments should be disclosed separately from the capital balances of specific endowments.

5.168 The 2007 SORP introduced new terminology concerning endowments and charitable donations (paragraphs 132 to 158 inclusive) and Colleges should refer to the detailed guidance contained therein when drafting their accounts.

Note 22 Revaluation Reserves

5.169 The amount by which tangible fixed assets were revalued, adjusted for sums released to the income and expenditure account and unrealised gains and losses. Where material to the understanding of the accounts, any amounts released relating to accelerated depreciation charges (see Chapter 6) should be disclosed separately within the note.

Other Reserves

Restricted reserves

5.170 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. The funding bodies would now only expect to see a restricted reserve in extremely limited circumstances; for example, in respect of a prize fund.

Note 32 Pensions and Similar Obligations

Teachers' Pension Scheme

5.171 The TPS is a statutory, contributory, final salary scheme administered by Teachers' Pension, on behalf of the Department for Education. The regulations under which the TPS operates are the Teachers' Superannuation (Consolidated) Regulations 1997, as amended by the Teachers' Pensions (Amendment) Regulations 1999, the Teachers' Pensions (Amendment) Regulations 2002 and **The Teachers' Pensions Regulations 2010 (SI 2010/990)**. These Regulations apply to teachers in schools and other educational establishments in England and Wales, which are maintained by LEAs, and also to teachers in many independent schools and establishments of further and higher education. Teachers are able to opt out of the TPS.

5.172 The TPS is an unfunded scheme with contributions made on a pay-as-you-go basis.

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Valuation of the Teachers' Pension Scheme

5.173 At least once every four years, the Government Actuary, using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The cost of pensions increases is excluded from the valuation and, consequently, neither teachers nor their employers contribute to this added value. The last published valuation of the TPA was at 31 March 2004 and published in November 2006. The next valuation, due at end of March 2008, has been suspended in the light of scheme reforms taking place and hence the 2004 valuation remains the most recent extant valuation to refer to still.

5.174 The basis of the notional fund in which the TPS is invested has changed from 1 April 1996. After that date, the cost of pensions increases are charged to the fund and the fund is deemed to be invested in line with the practice of large real pension funds. Credits are added to the notional fund to match the cost of increases arising from past service to 1 April 1991 and supplementary credits for future years.

5.175 For members of the TPS taking early retirement on or after 1 September 1997, part of the mandatory pension has fallen to the employer to fund. This sum should be treated in the same way as enhanced pensions under FRS 17.

Local Government Pension Scheme (LGPS)

5.176 The impacts of FRS 17 on the disclosures required for the LGPS are set out in Chapter 6.

Note 33 Post-balance Sheet Events

5.177 A post-balance sheet event is an event that occurs between the balance sheet date and the date on which the financial statements are approved (as defined in FRS 21 *Events after the Balance Sheet Date*). Post-balance sheet events will be disclosed in the notes to the financial statements, in addition to disclosure in the members' report. The financial impact of post-balance sheet events will also be disclosed where it is known or can be estimated.

Note 36 Contingent Liabilities

5.178 A contingent liability is defined in FRS 12 as follows:

a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

- the amount of the obligation cannot be measured with sufficient reliability.

5.179 Contingent liabilities are not recognised as liabilities because they are either:

- possible obligations, as it has yet to be confirmed whether the entity has an obligation that could lead to a transfer of economic benefits; or
- present obligations that do not meet the recognition criteria in FRS 12, because it is either not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made.

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5.180 A material contingent loss not accrued should be disclosed, except where the possibility of loss is remote. If the possibility of loss becomes probable, a provision should be recognised.

5.181 In respect of each contingency which is required to be disclosed, the following information should be stated by way of notes in financial statements:

- the nature of the contingency
- the uncertainties which are expected to affect the amount or timing of the ultimate outcome
- a prudent estimate of the financial effect, made at the date on which the financial statements are approved by the members of the corporation; or a statement that it is not practicable to make such an estimate
- the possibility of any reimbursement.

5.182 A contingent asset is defined in FRS 12 as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

5.183 Contingent assets should not be recognised in financial statements until the realisation is virtually certain and the asset is therefore no longer "contingent". Details of contingent assets which are not virtually certain will only be disclosed where an inflow of economic benefits is probable.

Note 37 Related Party Disclosures

5.184 FRS 8 *Related Party Disclosures* requires the disclosure of information on related party transactions.

5.185 Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

5.186 FRS 8 states that the following are deemed to be related parties to a reporting entity:

- subsidiary undertakings
- its associates and joint ventures

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| |
|---|
| <ul style="list-style-type: none">• the investor or venturer in respect of which the reporting entity is an associate or joint venture |
| <ul style="list-style-type: none">• directors of the reporting entity |
| <ul style="list-style-type: none">• pension funds for the benefit of employees of the reporting entity, or of any entity that is a related party of the reporting entity. |
| 5.187 The following are presumed to be related parties (unless it can be demonstrated that neither party has influenced the financial and operating policies of the other): |
| <ul style="list-style-type: none">• the key management of the reporting entity and the key management of its parent undertaking or undertakings |
| <ul style="list-style-type: none">• each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity |
| <ul style="list-style-type: none">• an entity managing or managed by the reporting entity under a management contract. |
| 5.188 Following the definitions above the members of the corporation would be deemed to be related parties to the College, members of the senior management team and any other staff with significant involvement with major contracts (such as estate manager, or procurements officer) would be presumed to be related parties. |
| 5.189 Members of the corporation may have an interest in businesses with which the College trades. It will need to be considered for each case whether that individual can influence the actions of the business to the extent that either the College or the business has subordinated its own separate interests. |
| 5.190 FRS 8 does not require disclosure of the relationship and transactions between the reporting entity and the parties listed below, simply as a result of their role as: |
| <ul style="list-style-type: none">• providers of finance in the course of their business in that regard |
| <ul style="list-style-type: none">• utility companies |
| <ul style="list-style-type: none">• government departments and their sponsored bodies. |
| 5.191 The 2007 SORP does however, override this with a requirement to disclose Funding Council grants. The information contained within Note 2, Note 15 and Note 16 should cover this and therefore, further transactions with the funding bodies do not need to be disclosed under the requirements of FRS 8. |

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Note 39 Amounts Disbursed as Agent

Learner Support Funds

5.192 Learner support funds should be excluded from income and expenditure and disclosed only as a note, as illustrated in the Casterbridge College model financial statements. Further details on the treatment of agency costs such as learner support funds are provided in Chapter 6 of this Handbook.

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Accounting for Subsidiary and Associate Companies, and Joint Ventures

Use of College companies

- 6.1 Colleges may wish to consult with their financial statements auditors before making a decision on whether to establish a subsidiary undertaking.
- 6.2 It is the responsibility of each College and its Corporation to ensure that the activities of its subsidiary and associated undertakings and those of any joint venture to which it is a party are within the scope of its primary powers under the Further and Higher Education Act 1992. Colleges are advised to obtain independent legal advice on the exercise of their power to participate in companies.

Subsidiary undertakings

- 6.3 A full copy of each subsidiary undertaking's audited financial statements should be sent to the responsible funding body with a College's own audited financial statements. If a subsidiary undertaking was dormant during the year, then this should be stated in a covering letter and a copy of these accounts will not be required. If a subsidiary undertaking's financial statements were not signed by the return date for College accounts, a draft copy should be provided with the College's financial statements and a signed copy should be provided as soon as it becomes available.

Links with other companies

- 6.4 Where a College has links with companies and other organisations, these will normally be the subject of a formal memorandum between the College and the company or joint venture. Where a College has material business links with any companies or other organisations which, for any reason, are not consolidated or disclosed as subsidiary undertakings, associates or joint ventures, then details of these business links and any related potential liabilities will be disclosed in the notes to the accounts. Comparative figures are not required. Colleges will prepare a full list of business links for discussion with their financial statements auditors, and will agree with these auditors which are material and require disclosure. Examples of such links include:
- a link through a trust which controls a company or organisation with which the College has (or has had) dealings
 - a situation where the College is a major or minor partner in a large European grant-funded project where, for example, each partner may bear liability in respect of the project as a whole to a varying degree (full, partial, joint and several, or none) and this requires disclosure.
- 6.5 In circumstances such as these, the nature of material links will be disclosed together with details of:
- the name of the company or organisation
 - the principal activity

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- any investment by the College
- whether any of the activities take place outside England.

6.6 Details of any material contingent liability will be disclosed in the note on contingent liabilities.

Associates and joint ventures

6.7 FRS 9 *Associates and Joint Ventures* requires the use of the equity method of accounting for associates and the gross equity method of accounting for joint ventures. It prohibits proportional consolidation, which is currently adopted for some joint ventures, and proposes an accounting treatment for “joint arrangements that are not entities” that is broadly similar to proportional consolidation. FRS 9 requires such arrangements to be accounted for at the individual entity level, as well as on consolidation. Many collaborative activities will fall within the scope of FRS 9 and Colleges are advised to consult their financial statements auditors on accounting for proposed collaborative initiatives.

6.8 FRS 9 sets out definitions of “joint arrangements that are not entities”. An entity would be carrying on a trade or business of its own, not just part of the business of the organisations. The following are examples of joint arrangements that are not entities:

- where the partners derive their benefits from products or services taken in kind rather than by receiving a share in the results of trading
- where each partner’s share of the output of the joint activity is determined by supply of inputs.

6.9 Colleges need to assess whether they are entering into a joint venture or a joint arrangement; most partnerships currently operating between Colleges are joint arrangements.

6.10 Under a joint arrangement each College should account for its own share of the assets, liabilities and cash flows of the arrangement. The share should be set out in the memorandum of understanding between the partners.

6.11 Where the cash flow for a particular project undertaken by a partnership is via a lead College, then that College will record the cash receipt and outflow in its published cash flow statement as:

- Receipt of grant for partnership £xxx
- Transfer of grant to partnership £xxx.

Any sums not transferred at the year end should be recorded as payments received on account.

6.12 Paragraphs 6.10 and 6.11 apply whether a College is preparing consolidated accounts or single entity accounts.

6.13 An example might be as follows.

Four Colleges have a partnership arrangement to set up a shared network and develop learning materials to deliver over that network.

A grant towards setting up the network is received by a lead College.

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Each College contributes, in equal proportions, learning materials and a share of running costs.

Each College will record within its operating activities:

- *its contribution to running cost*
- *the costs of developing learning materials*
- *depreciation on its share of assets*
- *its share of release of deferred capital grant.*

Each College will record on its balance sheet a quarter of the value of the fixed assets owned by the partnership and relevant proportion on the deferred capital grant.

The lead College will record the receipt and transfer of the grant.

6.14 If the partnership is deemed to be a joint venture, then the following treatment should be applied in consolidated accounts:

- the share of joint venture income should be shown as a deduction from group income (which will include it)
- the share of operating surplus of the joint venture should then be added back in
- the share of assets and liabilities of the joint venture should be shown on the balance sheet under investments.

6.15 Where consolidated accounts are not prepared, the information at paragraph 6.11 and the effect of including it should be included by way of a note.

Acquisition of private training providers

6.16 A number of Colleges have acquired the business of private training providers. Each of these acquisitions should be considered on its own merit and acquisition or merger accounting applied as appropriate. It is presumed that acquisition accounting will apply in the majority of cases.

Discontinued activities

6.17 When Colleges sell or close one or more of their subsidiary or associate undertakings, they should ensure that they follow the requirements of FRS 3 *Reporting Financial Performance* in accounting for any such discontinued activity. FRS 3 defines discontinued operations as operations of the reporting entity that are sold or terminated and that satisfy **all** of the following conditions:

- The sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- If a termination, the former activities have ceased permanently.
- The sale or termination has a material effect on the nature and focus of the reporting entity's operations and represents a material reduction in its operation

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facilities resulting either from its withdrawal from a particular market or from a material reduction in turnover in the reporting entity's continuing markets.

- The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

6.18 Operations not satisfying all of these conditions are classified as continuing.

6.19 The necessary disclosure requirements in Casterbridge College for discontinued activities are as shown in Tables 6.1 to 6.5:

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Table 6.1: Consolidated income and expenditure account for the year ended 31 July 2012.

| | Notes | Continuing operations | Discontinued operations | Total | Total |
|---|-----------|-----------------------|-------------------------|----------------|---------------|
| | | 2012 | 2012 | 2012 | 2011 |
| | | £'000 | £'000 | £'000 | £'000 |
| INCOME | | | | | |
| Funding body income | 2 | 33,996 | | 33,996 | 36,921 |
| Tuition fees and education contracts | 3 | 3,609 | | 3,609 | 4,944 |
| Other grants and contracts | 4 | 228 | | 228 | 303 |
| Other income | 5 | 2,467 | 83 | 2,550 | 1,875 |
| Endowment and investment income | 6 | 2,003 | | 2,003 | 1,437 |
| Total income | | 42,303 | 83 | 42,386 | 45,480 |
| EXPENDITURE | | | | | |
| Staff costs | 7 | 24,200 | 127 | 24,327 | 28,542 |
| Exceptional restructuring costs | 7 | 1,551 | | 1,551 | 0 |
| Other operating expenses | 9 | 12,623 | 127 | 12,750 | 13,557 |
| Depreciation | 13 | 4,038 | | 4,038 | 2,802 |
| Interest payable | 10 | 108 | | 108 | 0 |
| Total expenditure | | 42,520 | 254 | 42,774 | 44,901 |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and before tax | | (217) | (171) | (388) | 579 |
| Gain on disposal of discontinued operations | 40 | 210 | 0 | 210 | 0 |
| Loss on disposal of assets | 13 | (9,420) | 0 | (9,420) | 0 |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposal of assets but before tax | | (9,427) | (171) | (9,598) | 579 |
| Taxation | 11 | (12) | 0 | (12) | (12) |
| (Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax | 12 | (9,439) | (171) | (9,610) | 567 |
| Transfer from accumulated income within specific endowments | | 50 | 0 | 50 | 0 |
| (Deficit)/surplus for the year retained within general reserves | | (9,389) | (171) | (9,560) | 567 |

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Table 6.2: Consolidated statement of historical cost surpluses and deficits for the year ended 31 July 2012.

| | Notes | Continuing operations | Discontinued operations | Total | Total |
|---|-------|-----------------------|-------------------------|--------------|--------------|
| | | 2012 | 2012 | 2012 | 2011 |
| | | £'000 | £'000 | £'000 | £'000 |
| (Deficit)/surplus on operations before taxation | | (9,427) | (171) | (9,598) | 579 |
| Difference between historical cost depreciation and Realisation of property revaluation gains of previous | 23 | 16,920 | 0 | 16,920 | 0 |
| Historical cost surplus for the year before taxation | | 8,909 | (171) | 8,738 | 2,010 |
| Historical cost surplus for the year after taxation | | 8,897 | (171) | 8,726 | 1,998 |

Table 6.3: Consolidated statement of total recognised gains and losses for the year ended 31 July 2012.

| | Notes | Continuing operations | Discontinued operations | Total | Total |
|--|-------|-----------------------|-------------------------|---------------|---------------|
| | | 2012 | 2012 | 2012 | 2011 |
| | | £'000 | £'000 | £'000 | £'000 |
| (Deficit)/surplus on continuing operations after | | | | | |
| Unrealised surplus on revaluation of fixed assets | 13 | 5,100 | 0 | 5,100 | 0 |
| Appreciation of endowment asset investments | 22 | 2,200 | 0 | 2,200 | 0 |
| New endowments | 22 | 100 | 0 | 100 | 0 |
| Total recognised gains relating to the period | | | | | |
| Reconciliation | | | | | |
| Opening reserves and endowments | | 92,679 | 0 | 92,679 | 92,112 |
| Total recognised (losses)/gains for the year | | (2,210) | 0 | (2,210) | 567 |
| Closing reserves and endowments | | 90,469 | 0 | 90,469 | 92,679 |

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Table 6.4: Consolidated cash flow statement for the year ended 31 July 2012.

| | Notes | 2012 | 2011 |
|--|-----------|--------------|----------------|
| | | £'000 | £'000 |
| Cash inflow from operating activities | 25 | 1,671 | 774 |
| Returns on investments and servicing of finance | 26 | 1,895 | 1,437 |
| Taxation | 11 | (12) | (12) |
| Capital expenditure and financial investment | 27 | (7,731) | (6,363) |
| Management of liquid resources | 28 | 1,850 | 0 |
| Financing | 29 | 4,464 | (36) |
| Increase/(Decrease) in cash in the year | 30 | 2,137 | (4,200) |
| Reconciliation of net cash flow to movement in net funds/(debt) | | | |
| Increase/(decrease) in cash in the period | | 2,137 | (4,200) |
| Cash held by company disposed of during year | 41 | (17) | 0 |
| Cash inflow from new secured loan | 29 | (4,500) | 0 |
| Cash inflow from liquid resources | 28 | (1,850) | 0 |
| Change in net funds resulting from cash flows | 29 | 36 | 45 |
| Movement in net funds in the period | | (4,194) | (4,155) |
| Net funds at 1 August | | 10,587 | 14,742 |
| Net funds at 31 July | | 6,393 | 10,587 |

In this statement, figures in brackets refer to cash outflows and all other figures are cash inflows to the College.

Table 6.5: Notes.

| Note 14 | Investments | College | College |
|--------------|-------------------------------------|----------|----------|
| | | 2012 | 2011 |
| | | £'000 | £'000 |
| | Investments in subsidiary companies | 6 | 6 |
| | Investments in associate companies | 0 | 0 |
| Total | | 6 | 6 |

At the start of the year the College owned three subsidiary companies, ABC Limited, XYZ Limited and 123 Limited.

The College owns 100 per cent of the issued ordinary £1 shares of ABC Limited, a company incorporated in England and Wales, and 100 per cent of the issued ordinary £1 shares of XYZ Limited, a company incorporated in England and Wales. The principal business activity of XYZ Limited is carrying out training of employees on behalf of employers. The principal activity of ABC Limited is the rental of property. The College also owns 10 per cent of the issued ordinary capital shares of PQR Limited, the initial cost of which was £200.

123 Limited was sold on 25 July 2011. Income and expenditure to the point of sale and transactions relating to the sale are included in these consolidated statements and notes. ABC Limited did not trade during the financial year. The results of XYZ Limited have been included in the consolidated statements and notes.

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Note 40

Discontinued activities

| | Continuing 2012 | Discontinued 2012 | Total 2012 | Continuing 2011 | Discontinued 2011 | Total 2011 |
|--|--------------------|----------------------|----------------|--------------------|----------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | | |
| Funding body income | 33,996 | 0 | 33,996 | 36,921 | | 36,921 |
| Tuition fees and education | 3,609 | 0 | 3,609 | 4,944 | | 4,944 |
| Research grants and | 228 | 0 | 228 | 303 | | 303 |
| Other income | 2,467 | 83 | 2,550 | 1,825 | 50 | 1,875 |
| Endowment and Investment | 2,003 | 0 | 2,003 | 1,437 | | 1,437 |
| Total income | 42,303 | 83 | 42,386 | 45,430 | 50 | 45,480 |
| Expenditure | | | | | | |
| Staff costs | 24,200 | 127 | 24,327 | 28,496 | 46 | 28,542 |
| Restructuring costs | 1,551 | | 1,551 | 0 | | 0 |
| Other operating expenses | 12,623 | 127 | 12,750 | 13,514 | 43 | 13,557 |
| Depreciation | 4,038 | | 4,038 | 2,802 | | 2,802 |
| Interest payable | 108 | | 108 | 0 | | 0 |
| Total Expenditure | 42,520 | 254 | 42,774 | 44,812 | 89 | 44,901 |
| Surplus/(deficit) on operations after depreciation of tangible fixed assets at valuation and before tax | (217) | (171) | (388) | 618 | (39) | 579 |
| Gain on disposal of | 210 | | 210 | | | 0 |
| Loss on disposal of assets | (9,420) | | (9,420) | | | 0 |
| Taxation | (12) | 0 | (12) | (12) | | (12) |
| Surplus/(deficit) on operations after depreciation of assets at valuation and after tax | (9,439) | (171) | (9,610) | 606 | (39) | 567 |

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| Note 41 | Sale of business | 2012 £'000 |
|-------------------------|------------------|---|
| Net assets disposed of: | | |
| Debtors | | 33 |
| Cash at bank | | 17 |
| Creditors | | (26) |
| Loans | | (234) |
| | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | | (210) |
| Gain on disposal | | 210 |
| | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | | 0 |

The business sold during the year contributed £8,000 to the group's net operating cash flows. In selling the business the College secured loans and loan stock of £234,000

Consolidation of Academies

6.20 A number of FE colleges have become sponsors of academies and similar organisations such as UTCs (collectively "academies"). As a result there has been an increase in the number of queries as to the appropriate accounting treatment for the sponsored academy in light of the perceived level of potential and actual control over the composition of the Trust board in particular.

6.21 Each case will have to be examined on its own particular merits as there will inevitably be variations from the expected models at a local level. At a high level, ***the expectation of the Skills Funding Agency and the EFA is that colleges would not typically be expected to be consolidating the academy companies into their accounts for 2011.*** Sponsor colleges have not previously consolidated Academies.

6.22 The matter has been reviewed internally by the EFA and discussed between the members of the Audit Forum. The consensus was that control would not normally rest with the sponsor, in particular if reference is made to the distribution of assets on a winding up of an academy company where such assets would not be distributed to the members, but transferred to some other charity having similar objects to the Academy Trust - and NOT to the College sponsor.

College Combinations

6.23 FRS 6 *Acquisitions and Mergers* indicates that there are two methods of accounting for College combinations: acquisition accounting and merger accounting.

- Acquisition accounting regards the College combination as the acquisition of one College by another; the identifiable assets and liabilities of the acquired College are included in the consolidated balance sheet at fair value at the date of acquisition, and the results from the date of acquisition are included in the profit and loss account. The difference between the fair value of the consideration given and the fair values of the net assets of the entity acquired is accounted for as goodwill.
- Merger accounting treats the entities being combined as equal partners, with the balance sheets and profit and loss accounts being combined without any restatement of net assets.

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6.24 The FRS states that acquisition accounting should be used for all College combinations, except where the following five criteria have been met:

- criterion 1 – neither College is portrayed as acquirer or acquired
- criterion 2 – all Colleges, as represented by the corporations, participate in establishing the management structure and management personnel of the combined College: those decisions should be made on the basis of consensus rather than purely by the exercise of voting rights
- criterion 3 – the relative sizes of the two Colleges are not so disparate that one College dominates the combined College by virtue of its size. A College would be presumed to dominate if it is judged to be more than 50 per cent larger than each of the other proponents to the combination. However, this presumption may be rebutted if the College can clearly show that there is no dominance
- criterion 4 – only applicable to the private sector
- criterion 5 – only applicable to the private sector.

College combinations involving one or more further education corporations

6.25 There are two ways in which a combination involving one or more FE corporations can be achieved:

- model (or “type”) A – a new corporation is established, the existing corporation(s) is/are dissolved and the property, rights and liabilities of the dissolved corporation(s) are transferred to the new corporation
- model (or “type”) B – a corporation is dissolved and its property, rights and liabilities are transferred to an existing corporation.

It is a decision for the corporation(s) involved as to which model is followed. Either process gives the same result, with two or more corporations becoming one.

6.26 The accounting treatment for College combinations will depend upon meeting of the three relevant criterion in FRS 6 Acquisitions and Mergers outlined in paragraph 6.21. A model ‘A’ combination is *likely* to result in merger accounting and a model ‘B’ combination is *likely* to result in acquisition accounting, though neither treatment should be presumed. Colleges should discuss the most appropriate accounting treatment with their financial statements auditors prior to the combination occurring. It is however likely that acquisition accounting will apply in the majority of cases. Institutions should however consider the substance of the transactions and not just the legal form when arriving at a decision.

Merger accounted combinations

6.27 Where the reorganisation is to be accounted for as a merger (for example, model A), the income and expenditure and cash flows of both Colleges will be brought into the financial statements of the combined College from the beginning of the financial year in which the merger occurred. The corresponding figures should be restated by including the results for

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- both Colleges for the previous period and their balance sheets for the previous balance sheet date.
- 6.28 Any adjustment necessary to achieve uniformity of accounting policies will be made. However, the carrying values of the assets and liabilities of both Colleges are not required to be adjusted to fair value on consolidation.
- 6.29 The following disclosures should be made for the period in which the merger took place:
- the names of the Colleges which have merged
 - the date of the merger
 - whether the combination has been accounted for as an acquisition or a merger.
- 6.30 The combined College should also disclose the following information:
- a an analysis of the current period's income and expenditure account and STRGL into:
 - amounts relating to the merged College for the period after the date of the merger; and
 - for each College, amounts relating to that College for the period up to the date of the merger
 - b an analysis between the merging Colleges of the principal components of the income and expenditure account and an STRGL for the previous financial period
 - c the aggregate book value of the net assets of each merging College at the date of the merger
 - d the nature and amount of significant accounting adjustments made to the net assets of either College to achieve consistency of accounting policies, and an explanation of any other significant adjustments made to the net assets of either College as a consequence of the merger
 - e a statement of the adjustments to consolidated reserves resulting from the merger.
- 6.31 The analysis of the income and expenditure account required above will show, at minimum:
- income
 - operating surplus
 - exceptional items split between continuing operations
 - discontinued operations and acquisitions
 - surpluses before taxation
 - taxation
 - extraordinary items.
- 6.32 Where a merger takes place after 31 July, but before the financial statements are published, the merger should be disclosed in the financial statements of both Colleges as a significant post-balance sheet event. The financial statements should be approved by the corporation in existence at the date of approval.

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- 6.33 Each of the merging corporations is required to prepare accounts to the date of dissolution. Unless directed by the Secretary of State, accounts should not be prepared for a period in excess of a year. The responsibility for completing the accounts rests first with the corporation to be dissolved. ***If the corporation is dissolved before the obligation can be satisfied, then the obligation passes to the new corporation.*** In a model B combination, the continuing corporation is not required to prepare a part-year set of accounts.
- 6.34 Where a corporation is being dissolved, then it is the responsibility of either the new corporation (model A combination) or continuing corporation (model B combination) to ensure that the audited financial statements of the dissolved corporation(s) are submitted to the main funding body within ***five months*** of the dissolution.

Acquisition accounted combinations

- 6.35 Where the reorganisation is to be accounted for as an acquisition (for example, model B combinations), there are four points to consider in addressing the implementation of acquisition accounting:
- how to account for the results of the dissolved College in the financial statements of the continuing College
 - establishing the fair value of the assets and liabilities of the dissolved College at the date of dissolution, for inclusion in the balance sheet at that date
 - determining the amount of any positive or negative goodwill arising, and its accounting treatment in the continuing College's financial statements
 - making appropriate disclosures in the continuing College's financial statements.

Accounting for post-acquisition results

- 6.36 The results of the dissolved College should be included in the income and expenditure account of the continuing College from the date of combination. This means that both revenue and expenses for the dissolved College will need to be apportioned between the pre- and post-acquisition periods. Where there is a clear case for identifying individual items to a specific period, this should be done. However, in general time apportionment is likely to be the most appropriate method of splitting the income and costs across periods.

Fair value

- 6.37 FRS 7 *Fair values in acquisition accounting* requires the identifiable assets and liabilities of the dissolved College as the acquired entity to be included in the consolidated financial statements of the continuing College at their fair values at the date of acquisition. They should be measured at fair values that reflect the conditions at the date of the acquisition. Fair values should be based on the value at which an asset or liability could be exchanged in an arm's length transaction. The fair value of monetary items, such as debtors and creditors, should take into account the amounts expected to be received or paid and their timing. Unless they can be measured at market value, the fair values of non-monetary assets, i.e. land and buildings, plant and equipment, will normally be based on replacement cost, but should not exceed their recoverable amount as at the date of acquisition. The recoverable amount should reflect the condition of the assets on acquisition, but not any impairments resulting from subsequent events.

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- 6.38 In practice assessing the value of the dissolved College's monetary assets should not be difficult, as management are likely to have good information on the recoverability of debtors and the expected payment dates for liabilities. The more difficult area will be fixed assets where a market value may be costly and/or difficult to obtain, so depreciated replacement cost is likely to be the logical route. The FRS suggests that relevant indices may be used to calculate replacement cost, and where these have not changed significantly, it may be possible to argue that the depreciated replacement cost of fixed assets is not materially different from book value. In the case of land and buildings such an argument may prove difficult, although the specialised nature of many educational buildings should help.

Goodwill

- 6.39 Goodwill usually arises under acquisition accounting as the difference between the consideration and the fair value of the net assets acquired. Where the fair value of the net assets is greater than the consideration, the result is negative goodwill. Both goodwill and negative goodwill are generally accounted for in the balance sheet. In the case of the dissolved College, the absence of any consideration would mean a very substantial negative goodwill figure in the balance sheet of the continuing College, if accounted for in accordance with the relevant standard, FRS 10 *Goodwill and Intangible Assets*.
- 6.40 However, after careful consideration, it is deemed that it would be inappropriate to treat the fair value of the dissolved College's net assets acquired as negative goodwill. Instead, the transfer should be accounted for as in substance a **gift**. This follows the suggested treatment in the ASB's *Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities*, and the 2007 SORP which requires all gifts (cash or non cash) to be included in the income and expenditure account.
- 6.41 It is also recommended that the "gift" should be shown in the statement of recognised gains and losses (STRGL). FRS 3 requires all gains and losses recognised in a period to be taken to the I&E account unless otherwise permitted or required by standards or the law. The preferred approach is however to take the gain directly to reserves through the STRGL. This would avoid significantly distorting the income and expenditure account itself in the year of accounting for the transaction and the need to review the presentation and headings in the income and expenditure account. By virtue of using the STRGL to recognise the gift, the value will be included within the income and expenditure reserve by the conclusion of that year of account.
- 6.42 If a College decides to recognise the gain in the I&E account though, in the interests of providing a true and fair view for the institution concerned it is suggested that the "gift" is included below the "Surplus on continuing operations after depreciation of assets at valuation and before tax" line, alongside the line for dealing with significant asset disposals. **Further to FRS 18.58, whether the income and expenditure account or the statement of recognised gains and losses approach is adopted, it will constitute a disclosable override of the provisions of FRS 10.**

Disclosure

- 6.43 First of all, it will be necessary to include within the accounting policies note, ideally under the basis of preparation section, an explanation that in accordance with the 2007 SORP, the

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combination of the continuing College and the dissolved College has been accounted for as an acquisition for nil consideration from the date of acquisition.

- 6.44 The accounting policies note should also explain that where an acquisition is carried out at nil or nominal consideration and there is an excess of the fair value of the assets acquired over the fair value of the liabilities assumed, then the resulting gain has been treated as a gift and reflected in the income and expenditure account or statement of recognised gains and losses for the year (whichever is agreed by the governors). It will be necessary to explain that this is an override of FRS10 which is necessary in the view of the Board of Governors in order for the financial statements to give a true and fair view.
- 6.45 Detailed disclosures are also required: for each class of the dissolved College's assets, with book values, adjustments (including those arising from bringing accounting policies into line) and fair values; the pre- and post-acquisition results of the dissolved College; and the effects on the cash flow statement.

Due date of receipt of finance record

- 6.46 Colleges are also required to submit with their audited financial statements, to the appropriate funding body, a finance record for the period. The following rules should be followed.
- If the combination occurs on 1 August, the new corporation (or continuing corporation) should ensure that the appropriate funding body receives, within six months, a finance record for year ending 31 July for each of the pre-merger corporations.
 - If the combination occurs part way through the year, a finance record is only required for the new corporation (or continuing corporation) for that year. No finance record is required for the dissolving corporation(s).

This will avoid double counting of College data in the database.

Agency Arrangements

Introduction

- 6.47 This section provides guidance to Colleges regarding the interpretation by the funding bodies of paragraph 55 of the 2007 SORP, titled "Agency arrangements".

Background

- 6.48 The SORP states: "Where the institution disburses funds it has received as paying agent on behalf of a funding body or other body, and has no beneficial interest or risks related to the receipt and subsequent disbursement of the funds, these funds should be excluded from the income and expenditure of the institution. Any commissions received whilst acting as agent would be included as income".

Financial Reporting Standard 5 *Reporting the Substance of Transactions*

- 6.49 The objective of FRS 5 is to ensure that the substance of an entity's transactions is reported in its financial statements. The standard is divided into four key areas:

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- the substance of transactions
 - recognition of assets and liabilities
 - disclosures
 - quasi-subsidiaries.
- 6.50 The core of the standard is that an entity should report the substance of the transaction into which it has entered. In determining the substance of a transaction, the following are required to be identified:
- whether the transaction has given rise to new assets or liabilities for the reporting entity
 - whether it has changed the entity's existing assets and liabilities.
- 6.51 Assets are defined as "right or other access to future economic benefits controlled by an entity as a result of past transactions or events".
- 6.52 Liabilities are defined as "an entity's obligations to transfer economic benefits as a result of past transactions or events".
- 6.53 The recognition of assets and liabilities is defined as the process of incorporating an item into the primary financial statements under the appropriate heading. It involves depiction of the item in words and by a monetary amount and the inclusion of that amount in the statement totals. The standard requires recognition in the balance sheet of assets and liabilities if:
- there is sufficient evidence and existence of the item
 - the item can be measured at a monetary amount with sufficient reliability.

Agency arrangements for Colleges

- 6.54 What constitutes an agency arrangement will depend upon each individual fund and its own individual characteristics. However, the following can be considered to be agency arrangements:
- general access funds
 - childcare support
 - residential bursary funds.
- 6.55 The above funds are allocated by the funding bodies as part of FE learner support funds.
- 6.56 At present only the general access fund element of learner support funds is treated as an agency arrangement and, therefore, excluded from Colleges' income and expenditure accounts. Childcare support and residential bursary funds are **not** currently treated as agency arrangements.

General access fund

- 6.57 This is a discretionary fund that covers general living and learning costs. Funds can be provided to students for a number of purposes:
- purchase of equipment

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- student bursaries.
- 6.58 In addition to the above, the fund can be used to help with childcare support and accommodation needs.
- 6.59 Large items of equipment purchased from the access fund for a student's need will remain the property of the College and if returned to the institution for its own use, the access fund should be reimbursed with an amount representing the depreciated value.

Childcare support

- 6.60 Childcare support is used to support students' costs towards childcare provision. The provision should be registered but, in exceptional cases, the fund may be used for childcare that is charged for but not registered. Payments may be made to a third party, for example, a crèche or childminder.

Residential bursaries

- 6.61 These funds are intended primarily for students attending specialist Colleges of agriculture and horticulture, art and design or on a course that attracts a number of students from beyond daily travelling distance. The fund can be used to help students reside in private accommodation as well as accommodation owned or managed by the institution.

Unspent funds

- 6.62 All unspent funds should be returned to the appropriate funding body.

Administration costs, interest and bank charges

- 6.63 Institutions are allowed to use up to 5 per cent of their allocation of learner support funds towards administration costs. Bank charges may not be deducted from learner support fund allocations. Interest earned on an institution's learner support accounts may be used to defray audit costs.

Meeting the requirements of the Statement of Recommended Practice

- 6.64 The key test is whether the College has any future beneficial interest in the funds. In the majority of cases the funds will be given to students to support their studies, and so the beneficial interest will be transferred from the College to the learner. Where this occurs, the funds should be excluded from the income and expenditure account. In the College's year-end financial statements there should be a separate note for each of the funds showing how they have been treated.
- 6.65 In some cases, funds might not be passed direct to the student but to a third party, in order to pay for student-related transactions, such as residential costs and equipment. In these cases, as the contract is between the College and the third party, the beneficial interest is not transferred from the College to the learner. Where this occurs, the funds should be included within the income and expenditure of the College. For example, large items of equipment purchased from the access fund for a student's need remain the property of the College.

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Disclosure requirements

- 6.66 The disclosure notes for learner support funds in Colleges' financial statements should be amended for income and expenditure consolidated in Colleges' financial statements. The necessary disclosure requirements are provided at Note 39 of Chapter 4 in this Handbook.
- 6.67 If you have any queries over the interpretation of this guidance please contact your financial statements auditor.

Other agency arrangements

- 6.68 Colleges will also receive other income which it disburses on behalf of a third party and has no beneficial interest in the funds, for example, Adult Learning Grants and trainee allowances paid through work-based learning. In these instances the College should also exclude the income and expenditure from its accounts if the FRS 5 test for the recognition of the asset is not met.

Lead partner and Consortia income

- 6.69 Many Colleges will also act as consortium lead partners for income streams such as Adult Apprenticeships and will administer the claims on behalf of the partner organisations. The arrangements for these consortia vary but will include a mixture of College providers and private training providers, with the lead College able to deduct a percentage of the income earned (a "top slice") before passing it on, to cover administration and quality control procedures. The required disclosures within the lead College financial statements will depend on the nature of the organisation the funds were earned by, but will be:-
- the College should recognise its share of the income earned as a top slice when the right to consideration has been given i.e. the claim has been made in the ILR
 - the College should recognise any income earned in its own right on the same basis
 - where the College is passing funds on to a partner College or a non College partner, those amounts should be netted off against the income earned such that both elements are excluded from the accounts altogether
 - a table reconciling the gross income claimed to the net income shown in the financial statements should be included within the notes to the accounts.
 - where Colleges foresee either an actual or contingent liability existing within their arrangements as a result of the risks associated with being a lead College and not being able to recover any clawback of funds from the appropriate partners, then provision or disclosure should be made within the accounts accordingly.

The right to consideration occurs when the claim has been made in the ILR. It is not expected that Colleges will need to consider accruals or deferrals of such income except insofar as they represent invoiced claims made up to the year end but not yet processed. This will include the achievement element of the funding for a learner (25% of the funding) for which the right to consideration will be triggered by the internal or external verification process concluding that achievement is appropriate. Where this occurs before the year end then an appropriate accrual should be considered. It is not expected that historic achievement rates will be used to

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project an achievement rate to be applied to learning in progress at the year end. It is also not appropriate to consider deferring the delivery costs through a Work In Progress provision. These principles will apply to all similar arrangements including ESF.

UK Corporate Governance Code

Introduction

6.70 The code issued in June 2010 superseded and replaced the Combined Code issued by the LSE in various forms since 1998. A small number of changes had been made to the previous versions of the Code but which do not affect the substance of the following text.

Main features of the Code

6.71 The Code's overall aim is to enhance board effectiveness and to improve investor confidence by raising standards of corporate governance. The main features of the Code are:

- new definitions of the role of the board, the chairman and non-executive directors
- more open and rigorous procedures for the appointment of directors and from a wider pool of directors
- formal evaluation of the performance of boards, committees and individual directors, enhanced induction and more professional development of non-executive directors
- the separation of the roles of the chairman and the chief executive to be reinforced
- a chief executive should not go on to become chairman of the same company
- closer relationships between the chairman, the senior independent director, non-executive directors and major shareholders
- a strengthened role for the audit committee in monitoring the integrity of the company's financial reporting, reinforcing the independence of the external auditor and reviewing the management of financial and other risks.

6.72 The Code incorporates the substance of Derek Higgs' and Sir Robert Smith's proposals. The main areas of difference are:

- modification of the Code's structure to include not only main "principles" and "provisions" but also supporting "principles", allowing companies greater flexibility in how they implement the Code
- the board chairman to be able to chair the nomination committee
- clarification of the roles of chairman and the senior independent director, emphasising the chairman's role in providing leadership to the non-executive directors and in the communication of shareholders' views to the board
- smaller companies below the FTSE 350 only required to have a minimum of two independent non-executive directors
- rigorous review rather than special explanation when non-executive directors are re-elected beyond six years.

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- 6.73 The intention is that provisions should be as clearly defined and verifiable as possible, so that companies can report unambiguously whether or not they have followed them. The supporting principles are cast in more general terms and leave the detailed method of implementation up to the College to decide.
- 6.74 If the Code is applicable to Colleges, they will be required to make a statement on how they have applied the main and supporting principles. The statement should also include confirmation that the College complies with the Code's provisions or, where it does not comply, provide an explanation as to why this is the case.

Required action by Colleges

- 6.75 No action is required at this time. However, Colleges need to be aware of the Code and should consider its impact on their corporate governance.
- 6.76 Colleges should also take account of The English Colleges' Foundation Code of Governance issued in December 2011 which establishes a common set of recommended threshold standards of good governance practice expected of all governing bodies of Colleges in the English FE College sector. ***Whilst only voluntary for adoption by Colleges***, there is a presumption of 'comply or explain' and that this will be explicitly recorded in the governance statement in colleges' accounts (from 2011/12). Colleges adopting the code should report this in the corporate governance statement contained in its annual, audited financial statements; those not adopting the code need not make any statement. Those Colleges which have adopted the code but whose practices are not consistent with any particular provision of the Code, should publish in the corporate governance statement an explanation for that inconsistency.

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Land and Buildings Owned by a Third Party

Introduction

6.77 This section provides guidance to Colleges on the most appropriate accounting treatment for land and buildings owned by a third party, such as a trust, and held for use by the College.

Background

6.78 A number of Colleges occupy premises which are owned by third parties and for whose occupancy no (or minimal) rental payment is required. On the whole, the type of Colleges affected will be some Catholic sixth-form Colleges; some agricultural Colleges; some sixth-form Colleges; and designated Colleges. However, it is possible that all Colleges could come under this category.

6.79 The position becomes more complicated when these Colleges receive funding body grants for capital projects. The element of the capital project financed by the funding body will appear on the balance sheet, whilst the proportion financed by the third party might not.

Financial Reporting Standard 5 *Substance of Transactions*

6.80 Colleges are reminded that they should abide by the principle of FRS 5 *Substance of Transactions*. Even though the institution might not own the land and buildings it occupies, in substance all benefits and risks from using the buildings have been transferred to the institution. For example, the College could be responsible for all the repairs and maintenance of the land and buildings.

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6.81 Section 5.81 of Chapter 5 *Guidance on the Preparation of the Members Report and Notes to the Financial Statements* states that Colleges which occupy premises owned by third parties should disclose in the notes to the financial statements the full circumstances, in order to give the reader of the statements an understanding of the College's position. In practice, though, some of the above Colleges have opted to disclose a valuation for land and buildings on their financial statements, whilst others have not. The latter option should always be accompanied by an explanation as to why the valuation is not available as this is not expected to be a frequent occurrence.

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Statement of Recommended Practice: Accounting for Further and Higher Education July 2007

- 6.82 The funding bodies reiterated in section 2.1 of Chapter 2 of the Accounts Direction Handbook that, in preparing their financial statements, Colleges are required to follow the requirements of the 2007 SORP.
- 6.83 Paragraph 95 of the 2007 SORP indicates that the following accounting policy should be applied for land and buildings owned by a third party:

*“A number of institutions occupy premises which are owned by other bodies and for which no rental or a nominal rental is made. In some cases there may be no formal agreement to occupy. Where an institution enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, whether or not such use is regulated by a licence or lease, the financial statements must disclose this and, **if practicable, a value should be attributed to this benefit and be capitalised, with a corresponding credit to deferred capital grants** (which should subsequently be released to the income and expenditure account in accordance with paragraph 54), and thereafter depreciated over the period of use... Where no formal occupancy agreement exists, the institution should consider regularising the position by the establishment of a lease or licence, as this will assist in determining a value for the benefit.”*

This represented a change from the previous guidance whereby the corresponding credit would have been made to the Revaluation Reserve (see paragraph 6.94 below).

Definition of “if practicable”

- 6.84 The SORP does not provide a definition of “if practicable”. However, a College would normally be expected to provide a value for its land and buildings owned by a third party. Paragraph 18 of FRS 15 *Tangible Fixed Assets* permits an asset to be excluded from capitalisation either where:
- no reliable cost or valuation can be obtained; or
 - the cost of obtaining a valuation is greater than the benefit to the users of the financial statements in assessing the management’s stewardship of the assets.

- 6.85 This policy must be applied on an asset-by-asset basis.

Materiality

- 6.86 The Auditing Practices Board, in its Glossary of Terms issued in March 1995, states: “Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of the users of the institution’s reports and financial statements.”
- 6.87 Colleges should discuss the appropriateness and materiality of the above accounting treatment with their financial statements auditors, prior to implementing the policy.

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The way forward

- 6.88 The question of whether or not a College should capitalise its land and buildings, when owned by a third party, depends upon whether it has rights or other access to ongoing future economic benefit. If it does, then the asset should be recognised.
- 6.89 Economic benefit can be met through service potential as well as cash flow. The test of whether the College has “control” of the rights or other access should be taken on a case-by-case basis.
- 6.90 “Control” means the ability to obtain for itself any economic benefits that will arise and to prevent or limit the access of others to those benefits. There are a number of possible circumstances that can arise, including the following.
- Where the land is owned by a charitable trust established in favour of a named College, then the ability of that College to control the economic benefit is clear: ongoing occupation is recognised and indeed explicit in the trust. In such circumstances, the College should recognise the use of the land and buildings as an asset. In such cases the trustees cannot, consistently with such trusts, direct the College to quit the charity premises. There should be clear disclosures relating to the accounting policy adopted and disclosure that the College does not enjoy the legal rights of ownership, for example, rights of sale or to the proceeds of sale.
 - Where the land is owned by a charitable trust for an educational purpose but not linked to that educational provision being made through a specific College, there is less clarity. In such cases, the trustees would appear to have discretion as to the body that may occupy the property in the future. In the case of *Governing Body of Henrietta Barnett School v Hampstead Garden Suburb Institute* (1995) 93 LGR 470 (a school case, not FE), the judge said that there was nothing to stop the foundation trustees in such a case from serving notice to quit, provided reasonable notice was given. In such cases it may be more problematic to argue that the College has clear rights and access to future economic benefit.
 - It is possible for land to be formally leased to a College. In these circumstances the situation will be clear in that the College will have rights and access to future economic benefits and therefore should capitalise its leasehold interest.
- 6.91 Therefore, Colleges must first establish the legal position of their occupation and use this to determine whether or not they should capitalise. For completeness, the accounts should state the basis of their occupation and any material conditions that may attach to their occupation.

Valuation date

- 6.92 The valuation date should be the later of:
- the date of incorporation; or
 - the date of assuming occupancy.

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- 6.93 For those Colleges which were incorporated under section 143 of the Learning and Skills Act 2000, such as voluntary-aided sixth-form Colleges, then the valuation date should be taken as 1 April 2001, unless the date of occupancy was later than this.

Recommendation

- 6.94 When a College's land and buildings are either partly or wholly owned by a third party, such as a trust, and held for use by the institution, then the College needs to ascertain whether a value can be attributed to this benefit and capitalised, with a corresponding credit to the **Revaluation Reserve**. The asset will then be depreciated over its remaining estimated life.
- 6.95 As noted above, the 2007 HE/FE SORP made changes to the accounting treatment for donated land (credit to income and expenditure) and for assets occupied by institutions but owned by third parties (credit to deferred capital grants) and removed a reference to inherited loans from which the historic treatment of inherited land and buildings (credit to revaluation reserve) could be inferred. The change in accounting treatment would be expected to only affect a relatively small number of institutions but in view of an ongoing review of the implementation of the 2007 SORP and the desire to retain comparability across the sector the LSC gave the opinion that the existing accounting treatment using the revaluation reserve should be maintained in 2008/09. This view was revisited and confirmed in 2009/10 based on discussions with the audit firms, the LSC and HEFCE.
- 6.96 The lack of clarity around the requirements of the original Accounts Direction and the basis for the initial credit being taken to the revaluation reserve left room for doubt as to the most appropriate treatment for such assets. In the absence of such clarity it is likely to be **most appropriate to continue with the existing accounting treatment in respect of land and buildings inherited from local authorities, with the addition of a clear accounting policy to state how tangible fixed assets inherited from local authorities are accounted for in accordance with this guidance. An example policy is shown below:**

Land and Buildings

Land and buildings inherited from the Local Education Authority are stated in the balance sheet at valuation on the basis of depreciated replacement cost as the open market value for existing use is not readily obtainable. The associated credit is included in the revaluation reserve. The difference between depreciation charged on the historic cost of assets and the actual charge for the year calculated on the revalued amount is released to the income and expenditure account reserve on an annual basis.

- 6.97 There is a separate, but related issue in respect of land or other property which was **owned by other organisations** but vested in Further Education colleges. A review of the relevant Acts of Parliament indicates that any land occupied by institutions not owned by the local education authority (e.g. land owned by churches, charitable trusts etc) was not covered by this legislation and therefore the accounting treatment required by the 2007 SORP (paragraph 95) is unaffected (ie "Where an institution enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, whether or not such use is regulated by a licence or lease, the *financial statements* must disclose this and, if practicable, a value should be attributed to this benefit and be capitalised" onto the balance sheet at value with the

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corresponding credit to deferred capital grants (for buildings) or income (for land) instead – a change from the 2003 SORP.

The above also represented a change from the 2007/08 Accounts Direction which required the existing treatment (ie credit to revaluation reserve) to be maintained in view of the desire to maintain comparability across the sector and pending further discussions and review of implementation of the 2007 SORP over the last few months. In view of this change in guidance, a prior year adjustment may have been necessary in the 2008/9 accounts of a small number of colleges. An example policy is shown below:

Buildings owned by third parties

Where the College enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, if practicable, a value is attributed to this benefit and capitalised, with a corresponding credit to *deferred capital grants* which are subsequently released to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the related asset(s).

- 6.98 If a value cannot be ascertained, then the College should disclose in the notes to the financial statements the full circumstances, in order to give the reader of the statements an understanding of their position.

Subsequent Expenditure on Existing Fixed Assets

Introduction

- 6.99 This section provides guidance to Colleges on the most appropriate accounting treatment for subsequent expenditure on existing tangible fixed assets, such as building refurbishments.

Background

- 6.100 As Colleges are being encouraged to implement property strategies, there is an increasing incidence of the capitalisation of expenditure on buildings arising in Colleges' financial statements. There is a tendency for Colleges to assume that **all** significant "project-related" expenditure on their estate is capital expenditure and account for it accordingly. However, the College must demonstrate that the criteria within UK GAAP have been satisfied in order to do so and this guidance seeks to set out the issues to be considered.
- 6.101 Where the project involves the complete demolition of a building and its replacement, there is little debate with the College that any remaining net book value of the individual building should be written out of the books and the new expenditure capitalised. However, where the work involves only a partial demolition or the substantial renovation or redevelopment of a building, for example the first two floors of a four-storey building, there is some significant room for debate.
- 6.102 If Colleges adopt a policy of capitalising the additional expenditure without taking account of the existing carrying value of the building, there is a risk of double counting, that is, the

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carrying value of the building could be overstated resulting in future depreciation charges being too high.

Financial Reporting Standard 15 *Tangible Fixed Assets* Guidance

6.103 Relevant extracts from FRS 15 are set out at 6.120 below. The principles regarding subsequent expenditure on existing tangible fixed assets are set out in paragraphs 37– 41. The key issue is that the subsequent expenditure “is recognised as an addition to the asset to the extent that the expenditure improves the condition of the asset beyond its previously assessed standard of performance” (paragraph 37).

Capitalisation of expenditure

6.104 The issue of a capital grant does not necessarily mean that the expenditure must be capitalised. Similarly, the expenditure could be capitalised even though no capital grant is forthcoming. The capitalisation of expenditure will be largely dependent upon the accounting policies adopted by the College. However, Colleges are reminded that these accounting policies should reflect the requirements of FRS 15 and guidance issued by either the Higher Education and Further Education Board for the Statement of Recommended Practice (HE/FE SORP Board) or the funding bodies.

6.105 Subsequent expenditure on existing fixed assets should only be capitalised if it increases the expected future benefits from the existing fixed asset beyond its previously assessed standard of performance.

6.106 In deciding the most appropriate accounting treatment of any subsequent expenditure, Colleges must consider the following questions.

- Was the expenditure originally part of the College’s long-term maintenance programme?
- Is the net book value of the existing asset plus the subsequent expenditure greater than its market value?
- Is there a **significant** prolongation of the fixed asset’s useful life beyond that conferred by repairs and maintenance?
- Is there an increase in its capacity?
- Is there a **substantial** improvement in the quality of output or a reduction in the previously assessed operating costs?
- Is there a **substantial** improvement in the open-market value of the fixed asset?
- Is the College satisfied that its proposed accounting treatment (to capitalise or not to capitalise) would be no different whether it received a capital grant or not for the project?

Component accounting

6.107 The 2007 SORP introduced an explicit heading of component accounting (paragraph 94) such that “where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for

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separately for depreciation purposes and depreciated over its individual useful economic life. For example, a building should be split for depreciation purposes between the structure of the building and items within the structure, such as general fittings.”

6.108 The principles of component accounting have resided within FRS 15 since its publication as the attached extracts demonstrate however they may not have been followed previously. With significant estates developments in the making for most Colleges, the guidance from FRS 15 and the 2007 SORP should be considered when determining the depreciable lives of major assets. Early discussions with the College’s property advisors will enable the appropriate information to be obtained to make a fair judgement in that respect.

Accounting treatment of costs incurred prior to construction commencing

6.109 A typical capital project for a College will incur significant levels of expenditure even before the construction phase commences. These costs will include the preparation of a property strategy and the subsequent feasibility study; applications for grant funding support and detailed project applications once the project has been approved. The accounting treatment for these costs and the associated funding should be considered carefully in the light of existing accounting guidance.

6.110 It is not expected that the costs of a property strategy, nor of the feasibility study itself, will be capitalised by a College. Such costs should be expensed as they are incurred and any associated funding support for the feasibility study, be accounted for as a revenue grant.

6.111 Directly attributable costs incurred subsequent to the feasibility study may be considered for capitalisation. Such costs are defined in FRS 15, paragraphs 9 to 11 and further guidance can be found in this Handbook at Chapter 5. The College should however be able to demonstrate that *in their opinion* the project is **more likely than not to go ahead** and in doing so should pay particular attention to the following areas and their status **at the time the costs were incurred**:-

- Has appropriate funding body **consent** been obtained where the project is likely to exceed the limits shown in Chapter 5.
- **Planning permission** – often the refurbishment or construction phase is dependent upon the College obtaining key planning permissions. The College should consider the likelihood that these will be granted and the impact on the project if they are not, before capitalising relevant costs.
- **Financing** – many capital projects involve a mixture of external borrowing and capital support from bodies such as (but not restricted to) the funding bodies.
- **Non financial criteria** – the Capital Handbook lists a range of other hurdle criteria to meet in the application, including sustainability, space utilisation, value for money and economy. The continuing achievement of these criteria should be kept under review when deciding whether to capitalise costs or otherwise.

6.112 Colleges should consider the use of additional narrative reporting where there are any issues with these at the balance sheet date so as to ensure all relevant information has been given to the readers of the accounts. The position is often not clear cut at the balance sheet date as to

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the appropriate treatment and Colleges should discuss the likely scenarios in advance with their financial statements auditors.

- 6.113 The College should also consider the eventual carrying value of the asset when capitalising associated costs. On final occupation of the asset the College may find that the accumulated costs exceed the recoverable value of the asset and that an **impairment review** is necessary at that point.

Accounting treatment where expenditure includes demolition or the removal of substantial parts of the asset

- 6.114 Where the subsequent expenditure includes the demolition or removal of substantial parts of an existing building, part of the expenditure incurred would not meet the test outlined above, and part of an existing asset would no longer exist. To capitalise all the subsequent expenditure without impacting on the existing net book value could therefore overstate the value of the asset after the work was completed.

Carrying Value of existing assets within a capital development programme

- 6.115 A significant number of capital projects involve the demolition of existing property and the building of new property on the same site. Colleges should take into account that property that has been earmarked for demolition and where the project is deemed more likely than not to go ahead (as discussed above), will now have a shorter useful economic life than was the case before the strategy was implemented. The strict interpretation of this is that the relevant costs of a building with an unexpired life of say, 20 years, earmarked for demolition in two years time, should be written off over that shorter period (“accelerated depreciation”). The net book value of the building at the point that the project is deemed more likely than not to go ahead, should be depreciated over the remaining two years in this example. There is no provision within the accounting standards to make a prior year adjustment for the revision to the economic life of the asset. This is the funding bodies’ preferred approach for the majority of Colleges.

A short example will illustrate this:-

- Assume that a College inherited a building at 1st April 1993 with a DRC valuation of £1,500,000;
- Also assume that the College deemed a 50 year UEL for that building with depreciation commencing at 1st August 2003 at the rate of £30,000 p.a.;
- As at 31 July 2009 a property strategy is confirmed as being more likely than not to proceed and as a result the building will be vacated and demolished at 31 July 2011;
- At 31 July 2009 the building will have a NBV of £1,050,000 after 15 years depreciation;
- This net book value would be written off over the remaining two years of the expected life, to July 2010, at the rate of £525,000 p.a. which is £495,000 higher than previously;

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- In order to present a clearer view of the College's underlying results, the College may wish to disclose this **additional charge** (the "accelerated depreciation" element) separately. In many cases though, it is expected that there will be an equivalent release of the revaluation reserve through the Statement of Historical Cost Surpluses and Deficits to match the increased depreciation charge.

Colleges that are able to properly demonstrate that the indications of impairment found in FRS 11 (and reproduced in Chapter 5) **apply**, may wish to then consider a formal impairment calculation. There are many difficulties associated with this next stage, primarily due to the inability to adequately identify an Income Generating Unit or the cash flows associated with it. As Colleges do not operate for profit, their break even position means that a meaningful impairment calculation is difficult to achieve. It may be possible to justify the use of the alternative accounting treatment in the 2007/08 handbook as a **proxy** for such calculations though. Taking the same scenario as above:

- Assume that a College inherited a building at 1st April 1993 with a DRC valuation of £1,500,000;
- Also assume that the College deemed a 50 year UEL for that building with depreciation commencing at 1st August 2003;
- As at 31 July 2009 a property strategy is confirmed as being more likely than not to proceed and as a result the building will be vacated and demolished at 31 July 2011. The adjusted UEL would therefore be 16 years;
- At 31 July 2008 the building will have a NBV of £1,080,000 after 14 years depreciation;
- As a proxy for the Value in Use of the building the College could use the adjusted remaining UEL of two years which represents £187,500 (calculated as 2/16 of £1.5 million);
- The **impairment** to the carrying value is therefore £892,500, being £1,080,000 less £187,500;
- In the absence of subsequent revaluations or additions to that building, this amount would be charged against the original inherited asset revaluation reserve unless it is shown that the reduction in value is a result of a "clear consumption of economic benefits";
- The depreciation charge in 2009 and 2010 will be £93,750 p.a.

Consideration of carrying value of Assets in the Course of Construction

6.116 Colleges should always review the carrying value of fixed assets at the year end and this principle applies equally well to Assets in the Course of Construction. As noted above Colleges should continually reassess the carrying value of an asset against its likely recoverable value.

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This principle is important when a project may be subject to delays or significant amendment to size or scope.

- 6.117 Project managers will be routinely reviewing the costs being incurred anyway and Colleges should ensure that any costs being carried forward have an enduring benefit to the project where there are changed circumstances that throw some doubt on their appropriateness. This aspect has been brought into focus by the current uncertainty regarding the availability of funding for capital projects both from within the sector and from financial institutions.
- 6.118 In the event that significant doubt is expressed about the likelihood of a project progressing in its original form (the key test above not being met such that the College cannot say that the project is more likely than not to proceed in that form) then the costs should be analysed for enduring benefit and those that do not meet the test, should be taken to the Income and Expenditure account. College auditors will be looking closely at the criteria for maintaining the costs as an asset and will want to see firm evidence of reviews in that respect.

Alternative treatments

- 6.119 If the College, on implementing FRS 15 for the first time, decided to adopt a policy of revaluation, then these issues may be resolved at the next review. However, for those Colleges who did not (the large majority), then this option is not available. Other possible alternatives include the following:
- Obtain an estimate from the College's supporting architect of the proportion of the proposed project expenditure that adds to the asset (in line with the standard) and that which impacts the existing asset and account for the expenditure (capital or revenue) accordingly.
 - Carry out an impairment review of the asset on completion of the project – the estates were valued on incorporation on a depreciated replacement cost (DRC) basis. It would be possible for the DRC to be re-computed for the building in question and any material impairment recognised on that basis.
 - To the extent that any renovation was subject to a capital grant, the grant is deferred in the balance sheet and released to income and expenditure to match the depreciation charge. It would be possible to construct an argument that an element of the grant should be released in proportion to the impairment, mitigating the impact on the College's financial statements.
- 6.120 To ignore the issue entirely in the face of the growing number of projects being planned would risk the College's estate being materially overvalued. Colleges should have clear direction on the subject and should take into account the proposed accounting treatment and consequences in their grant applications and property strategies.

Extracts from Financial Reporting Standard 15 *Tangible Fixed Assets*

Summary

6.121 *Paragraphs 34 and 35* – subsequent expenditure undertaken to ensure that the asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure, should be recognised in the profit and loss account as it is incurred. Without such expenditure the depreciation expense would be increased because the useful economic life or residual value of the asset would be reduced.

6.122 *Paragraph 36* – subsequent expenditure should be capitalised in three circumstances, where the expenditure:

- enhances the economic benefits of the asset in excess of its previously assessed standard of performance
- replaces or restores a component of the asset that has been treated separately for depreciation purposes and depreciated over its individual useful economic life; or
- relates to a major inspection or overhaul that restores the economic benefits of the asset that have been consumed by the entity and have already been reflected in depreciation.

Detailed provisions

6.123 *Paragraph 37* – subsequent expenditure on a tangible fixed asset is recognised as an addition to the asset to the extent that the expenditure improves the condition of the asset beyond its previously assessed standard of performance. Examples of subsequent expenditure that results in an enhancement of economic benefits include:

- modification of an item of plant to extend its useful economic life or increase its capacity
- upgrading machine parts to achieve a substantial improvement in the quality of output.

6.124 *Paragraph 38* – some tangible fixed assets require, in addition to routine repairs and maintenance (which is treated in accordance with paragraph 34), substantial expenditure every few years for major refits or refurbishment or the replacement or restoration of major components. For example, a furnace may require relining every five years. In accordance with paragraph 83, for depreciation purposes an entity accounts separately for major components (for example, the furnace lining) that have substantially different useful economic lives from the rest of the asset. In such a case, each component is depreciated over its individual useful economic life, so that the depreciation profile of the whole asset more accurately reflects the actual consumption of the asset's economic benefits. Subsequent expenditure incurred in replacing or renewing the component is accounted for as an addition to the tangible fixed asset and the carrying amount of the replaced component is removed from the balance sheet in accordance with paragraphs 72 and 73.

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6.125 *Paragraph 39* – the same approach may also be applied to major inspections and overhauls of tangible fixed assets. For example, an aircraft may be required by law to be overhauled once every three years. Unless the overhaul is undertaken, the aircraft cannot continue to be flown. The entity reflects the need to undertake the overhaul or inspection by depreciating an amount of the asset that is equivalent to the expected inspection or overhaul costs over the period until the next inspection or overhaul. In such a case, the cost of the inspection or overhaul is capitalised when incurred because it restores the economic benefits of the tangible fixed asset and the carrying amount representing the cost of the benefits consumed is removed from the balance sheet in accordance with paragraphs 72 and 73.

6.126 *Paragraph 40* – the accounting treatment for subsequent expenditure should reflect the circumstances that were taken into account on the initial recognition of the asset and the depreciation profile adopted (or subsequent revisions thereof). Therefore, when the carrying amount of the asset already takes into account a consumption of economic benefits, for example, by depreciating components of the asset at a faster rate than the asset as a whole (or by a previous impairment of the asset or component), the subsequent expenditure to restore those economic benefits is capitalised. The decision whether to identify separate components or future expenditures on overhauls or inspections for depreciation over a shorter useful economic life than the rest of the tangible fixed asset is likely to reflect:

- whether the useful economic lives of the components are, or the period until the next inspection or overhaul is, substantially different from the useful economic life of the remainder of the asset
- the degree of irregularity in the level of expenditures required to restate the component or asset in different accounting periods
- their materiality in the context of the financial statements.

6.127 *Paragraph 41* – where it has been determined not to account for each tangible fixed asset as several different asset components or to depreciate part of the asset over a different timescale from the rest of the asset, the cost of replacing, restoring, overhauling or inspecting the asset or components of the asset is not capitalised, but instead is recognised in the profit and loss account as incurred in accordance with paragraph 34.

Financial Reporting Standard 17 *Retirement Benefits* – Full Implementation

Introduction

6.128 This paper provides guidance to Colleges on the most appropriate accounting treatment on dealing with FRS 17 *Retirement Benefits* in Colleges' financial statements.

Objectives of Financial Reporting Standard 17

6.129 The objectives of FRS 17 are to ensure that:

- financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding

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- the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise
- the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

6.130 FRS 17 is a complex accounting standard, but it is based on a simple principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. FRS 17 is a better reflection of the economic reality of the relationship between an employer and the pension fund than the standard it replaced, SSAP 24 *Pension Costs*. Inclusion of the attributable share of the fund assets and liabilities does not, of course, mean that legal title has passed from the trustees to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the scheme.

6.131 The important accounting distinction for pension schemes is whether they are "defined contribution" or "defined benefit".

Teachers' pension scheme

6.132 The HE/FE SORP Board has considered the treatment of the TPS. It has decided that even though the TPS is a defined benefit scheme and prima facie Colleges would be expected to comply with the requirements of FRS 17 *Retirement Benefits*, it would not be possible for the TPS to identify separately the College's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, the Board stated that the TPS should be treated as though it were a defined contribution scheme.

6.133 In the TPS, the College pays a contribution to central government reflecting benefits earned during the year. These contributions are not put aside into a separate fund, nor are additional contributions thereafter required by central government in relation to those benefits. The pensions are paid by central government. The government treats the pension scheme as an unfunded defined benefit scheme.

Local Government Pension Scheme (LGPS)

6.134 The LGPS is classed as a multi-employer scheme, where it is **generally** possible for individual employers to identify their share of assets and liabilities, and therefore it should be accounted for as a defined benefit scheme, in accordance with FRS 17.

Pooled valuations

6.135 In a very few cases, LGPSs have indicated that they can only provide to the College a pooled valuation. If it is not possible for the actuary to identify the institution's share of the underlying assets and liabilities on a consistent and reasonable basis then paragraph 9(b) of FRS 17 allows such schemes to be accounted for as if they were a defined contribution scheme. Where this occurs, the funding bodies would not expect the College's financial statements to be qualified through non-compliance with an accounting standard. The

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disclosure note to the accounts should be similarly worded to the note for teachers' pension schemes.

6.136 The funding bodies are aware of the following schemes providing pooled valuations:

- Manchester (for small Colleges only)
- Tyne and Wear
- Croydon.

Disclosure requirements

6.137 The accounting treatment of fully implementing the standard in Colleges' financial statements is best described by Table 6.6.

Table 6.6: Accounting treatment of implementing the standard.

| Income and expenditure account | | Balance sheet | Statement of total recognised gains and losses |
|--|---|---------------------------------|--|
| Staff costs – other pension | Pension finance income (or costs) | | |
| Current service cost (capital cost of benefits earned in current period). | Interest cost (interest on the accrued pension liabilities). | Net pension asset / (liability) | Differences between the actual and expected return on scheme assets. |
| Past service costs (capital cost of benefit improvements). | Less: expected return on the assets held by the pension scheme. | Pension reserve | Experience changes affecting scheme liabilities. |
| Gains and losses on curtailments and settlements (for example, early retirements, bulk transfers from scheme) – except where FRS 3 para. 20 items. | | | Effect of changes in actuarial assumptions. |

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Income and expenditure presentation

- 6.138 FRS 17 introduced a new format heading “Pension finance income/ (costs)” into the income and expenditure account. The ASB received legal advice that this new heading was necessary and that it should be shown adjacent to, but separate from, the heading “Interest payable and similar charges”. The two components of the item “Pension finance income/ (costs)”, which are the “interest on pension scheme liabilities” and the “expected return on assets” should be disclosed separately in the notes (FRS 17 paragraph 84). This is typically achieved through the use of “analysis” tables within Note 32 to Casterbridge College with the net figure being shown in the Income and Expenditure account as appropriate (see below).
- 6.139 For the purposes of the Casterbridge accounts, the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off and the net figure should be included either within endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 in Casterbridge) and the net figure included either in the “endowment and investment income” note (Note 5 in Casterbridge) or in the “interest and other finance costs” note (Note 9 in Casterbridge).
- 6.140 The additional FRS 17 charge for staff costs, being the difference between current service costs and the contributions paid, should be included as a single figure within the staff costs note, rather than apportioned across relevant department headings, to be consistent with the finance record.
- 6.141 Any contributions from employees should be set off against the current service cost (FRS 17 paragraph 51).

Early retirements

- 6.142 FRS 17's definition of “retirement benefits” specifically **excludes** benefits that become payable as a result of the **early** termination of an employee's employment. Therefore, where employees made redundant are granted enhanced pension benefits (say, for early retirement) in lieu of, or in addition to, redundancy payments, the cost of the enhanced pension benefits are in effect treated as redundancy payments rather than past service costs. Such benefits might relate to the termination of an operation or fundamental reorganisation and be shown as FRS 3 paragraph 20 items outside operating profit.
- 6.143 Colleges have in the past accounted for termination related pension entitlements as “Enhanced Pensions” (see below) and calculated a provision for the ongoing liability using the published tables in accordance with FRS 12. The tables have an actuarial basis and in effect produce a similar result to that if it had been calculated under FRS 17 in most cases. Depending on the information flows between a College and its actuary, the implementation of FRS 17 on the balance sheet of a College resulted in certain elements (and not just the LGPS member related elements) of the provision being included within the total FRS 17 liability calculation and hence being released as Enhanced Pensions provisions as a prior period adjustment on implementation of the standard. Whilst this is strictly incorrect, there would be no significant overall balance sheet impact as the two provisions were calculated in a similar fashion. Therefore, where a College has already combined the enhanced pensions provision

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with the FRS 17 provision, and is impractical to obtain the information to analyse out the provisions, no adjustments are proposed to correct the position. The additional reporting disclosures found in FRS 17 (Revised) in respect of unfunded liabilities (of which Enhanced Pensions are a part) will identify this in the notes to the accounts.

Financial health implications of implementing Financial Reporting Standard

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- 6.144 The funding bodies take many factors into account in assessing a College's financial health group, such as financial and non-financial factors, with the funding bodies placing greater emphasis on the solvency of the College.
- 6.145 The funding bodies' financial health grading system adds back the effect of implementing FRS 17 when assessing a College's financial health.
- 6.146 Table 6.7 shows the effect of FRS 17 on the financial ratios used in the model and the action taken by the funding bodies to negate the effect of the accounting standard.

Table 6.7: The effect of FRS 17 on the financial ratios

| Financial ratio | Impact of FRS 17 on ratio | Funding body action to negate effect of FRS 17 |
|---|---------------------------|--|
| Cash generation | No | Not applicable |
| Cash days | No | Not applicable |
| Current ratio | No | Not applicable |
| Income and expenditure reserve | Yes | Ratio calculated on income and expenditure reserve less pension reserve |
| Operating position | Staff costs only | Ratio calculated on operating position less FRS 17 total operating charge |
| Cash-based operating position | Staff costs only | Ratio calculated on operating position less FRS 17 total operating charge (and depreciation less release of capital grants) |
| Total borrowing as a percentage of income | No | Not applicable |
| Total borrowing as a percentage of net assets | Yes | Ratio calculated on borrowing as a percentage of net assets excluding pension reserve |

- 6.147 Colleges should ensure that where external agencies assess their financial position and that this does not add back the impact of the standard (certain banking covenants for example), they are able to mitigate the risks and can manage their results to meet any terms and conditions that might apply.

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6.148 The funding bodies have so far chosen to discount the effects of FRS 17 in calculating the automatic financial health score, including the impacts of changing to using CPI as an index.

Enhanced pensions provisions

6.149 Unlike prepayment and accrual SSAP 24 provisions, the enhanced pension provision did not necessarily disappear under full implementation of FRS 17 and should instead be added on to the figures provided by the actuaries each year, as in most cases it will remain a valid provision. Care should be taken though that there is not any duplication of membership data between the two provisions, and Colleges should communicate with their actuaries accordingly.

6.150 A College's enhanced pension provision, as calculated using the enhanced pension provision tables provided in a separate document each year, constitutes two different types of provision:

- a) enhanced pensions resulting from redundancy (termination related pension entitlements)
- b) enhanced pensions resulting from early retirement, where an expectation of that payment existed prior to retirement (service related pension entitlements)

6.151 The element relating to scenario a) is strictly outside the scope of FRS 17 and therefore should be treated as a provision under FRS 12 Provisions, Contingent Liabilities and Assets; the element relating to scenario b) should be treated as a retirement benefit provision under FRS 17.

6.152 The element of each College's current provision which relates to each of these scenarios will vary. The Casterbridge College model accounts provided at Chapter 4 of the Handbook have been designed to treat the entire provision as relating to reorganisation costs and so treated as scenario a) outlined above. This is because it is anticipated that the majority of the College enhanced pension provisions will relate to termination related pension entitlements.

6.153 Each College should discuss with their auditors the suitability of this treatment, and where materially different, the relevant elements of the provision should be recognised under FRS 17. The funding bodies are aware that in certain cases, the FRS 17 valuation for a College has included liabilities in respect of scenario a) above and that it is complicated to extract those elements from the overall provision for the purposes of the accounts disclosures. Colleges should ensure that sufficient information is conveyed to the actuaries to enable an accurate valuation at the outset but in the (rare) circumstances where this is not possible, the "surplus/deficit" table in the notes to the accounts should clearly identify the FRS 12 element (often described as "unfunded" in the valuation) of the valuation.

6.154 The enhanced pensions spreadsheet provided each year calculates the FRS 17 charge. The FRS 17 charge will be as follows:

- balance at end of year – balance sheet, provision
- retirement cost in year (if any) – income and expenditure account, operating costs

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- payments in year – balance sheet, cash
- interest on provision – income and expenditure account, financing cost
- actuarial gain/(loss) – statement of recognised gains and losses.

Glossary to Financial Reporting Standard 17

Actuarial gains and losses

6.155 The changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Current service costs

6.156 The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailments

6.157 An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. For example, early termination of employees' services or termination or amendment of scheme terms affecting benefits accrued by future service.

Defined benefit scheme

6.158 A pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme

6.159 A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. An individual's benefits are determined by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.

Expected return on pension scheme assets

6.160 The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Multi-employer scheme

6.161 A defined contribution scheme or a defined benefit scheme where more than one employer participates.

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Past service costs

6.162 The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension finance income/(costs)

6.163 The total of the pension interest cost and the expected return on pension assets.

Pensions interest cost

6.164 The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Retirement benefit

6.165 All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Scheme liabilities

6.166 The liabilities of a defined benefit scheme for outgoings due after the valuation date.

Settlements

6.167 An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. For example, the payment of a lump sum in exchange for surrender of rights, the purchase of an annuity to cover benefits, or the transfer of scheme assets and liabilities relating to employees leaving the scheme.

Income recognition

6.168 Since the ASB issued Application Note G: Revenue Recognition, as an Amendment to FRS 5, 'Reporting the Substance of Transactions' (Application Note G') in November 2003, questions have arisen about the accounting for revenue from contracts to provide services, and the UITF was asked to provide guidance. In March 2005 it issued UITF Abstract 40 Revenue recognition and service contracts. The principles contained within both Application Note G and UITF 40 do not pose any great problems for Colleges but should require Colleges to examine closely the terms and conditions within any funding agreements to ensure that income is properly recognised in the correct accounting period.

6.169 The overriding consideration is whether the College has performed, or partially performed, its contractual obligations. If it has performed some, but not all, of its contractual obligations, it is required to recognise income to the extent that it has obtained the right to consideration through its performance. Conversely, if the contractual obligations have not been met, then the income should not be recognised.

6.170 It is therefore important that Colleges clearly understand the terms and conditions contained within any contracts entered into and seek clarification from the funder where these are not clear.

New UK Exposure Drafts

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6.171 The Accounting Standards Board (ASB) of the Financial Reporting Council published on the 30th January 2012, financial reporting exposure drafts (FREDs) 46 to 48 setting out revised proposals for the future of financial reporting in the UK and Republic of Ireland. The exposure drafts are as follows:

- FRED 46 'Application of Financial Reporting Requirements' (draft FRS 100);
- FRED 47 'Reduced Disclosure Framework' (draft FRS 101); and
- FRED 48 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (draft FRS 102).

6.172 The revised proposals recommend:

- a) **replacing all current accounting standards with a single FRS.** The ASB is proposing to use the IFRS for SMEs, as issued by the International Accounting Standards Board, as the base for draft FRS 102.
- b) **introduction of a reduced disclosure framework.** The framework permits certain entities (mainly subsidiaries) to apply the measurement and recognition requirements of EU-adopted IFRS with reduced disclosures.
- c) **retaining the financial reporting standard for smaller entities (FRSSE).**

6.173 As a consequence of feedback to its previous exposure drafts the ASB is proposing the following major changes:

- a) **eliminate the tier system;** The ASB will not proceed with the tier system previously proposed (and outlined in the 2010/11 Accounts Direction Handbook).
- b) **introduce accounting treatments permitted under current accounting standards;** options to revalue land and buildings, capitalise borrowing costs or carry forward certain development expenses have been incorporated into the draft FRS 102. The ASB is proposing to retain accounting treatments permitted under current accounting standards and international accounting standards rather than its previous policy to make minimal changes to the IFRS for SMEs.

6.174 The ASB is proposing that the revised proposals should take effect from for accounting periods beginning on or after 1 January 2015 with earlier adoption permitted.

6.175 The exposure drafts can be downloaded from the ASB's website at <http://www.frc.org.uk/asb/publications/documents.cfm?cat=3>. Further information regarding the proposals (including a Key Facts document) and the history of the consultations on the future of financial reporting in the UK and Republic of Ireland is also available on the ASB's website

Further Guidance on the Exposure Drafts

6.176 For the time being the funding bodies will not issue any further guidance to Colleges on these draft accounting standards as the accounting treatment might change by the time they get issued as accounting standards. If in the meantime Colleges wish to obtain further information on the FREDs they should refer to the ASB's website at www.frc.org.uk/asb

Urgent Issue Task Force (UITF) Abstracts

6.177 From time to time the ASB issues UITF Abstracts to deal with emerging issues that are not adequately dealt with in the existing standards and which are sufficiently pressing that they cannot wait for the full standard to be revised and reissued. On the whole the issues covered in the Abstracts are not relevant to the sector and are only referred to within this Handbook when they are relevant.

Charities Act 2011

6.178 The large majority of Colleges are exempt charities under the Charities Act 2011 as they were under the previous acts. As such they are not required to include within their annual reporting, how they meet the “public benefit test” for their charitable activities. Any Colleges that are **registered** charities however, will have to make specific reference to this within their accounts, most likely within their OFR. Guidance on this matter is being developed by the Charities Commission and any Colleges that believe they are affected by this legislation should discuss it with their auditors and refer to the guidance on the relevant Charities Commission website pages at http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_essentials/Public_benefit/public_benefit.aspx).

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