Financial Planning Handbook

Effective for all colleges' financial plans

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.

June 2015

Summary

The Financial Planning Handbook (the Handbook) has been prepared to achieve the following objectives:

a provide a 'one-stop' document to which colleges can refer when completing their financial plans

b readily accommodate changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the funding bodies

This Handbook will be updated periodically and the latest version will be published on the GOV.UK and the Association of Colleges websites.

Contents

1 Overview of financial planning

1.1. This Financial Planning Handbook sets out guidance on financial planning information that colleges are required to send to the Skills Funding Agency (SFA) and Education Funding Agency (EFA) by 31 July each year. This Handbook has been produced jointly by the College Finance Directors' Group (CFDG), the Association of Colleges (AoC), the SFA and the EFA. Throughout this document the SFA and EFA are referred to as the funding bodies.

1.2. The financial plan should show the expected out-turn for the current year, the annual budget for the forthcoming year and the forecast for the year after. The governing body should approve an annual budget before the start of each financial year (1 August) being the first year of the college's two-year financial plan.

Intended audience

1.3 This Handbook will be of interest to all colleges that are required to provide two-year financial plans to the SFA or EFA.

Financial plans

1.4 The funding bodies monitor the financial health of colleges to understand the degree of risk they may represent if they do not have the financial resources to continue operating.

1.5 The two key financial documents used to seek this assurance are the college's two-year financial plan and the college's financial statements. The guidance and submission requirements for the two-year financial plan are provided in this Handbook, while the guidance on the completion of the financial statements is provided in the Accounts Direction Handbook on the AoC website.

1.6 The college's two-year financial plan should be an integral part of its own strategic and development plans, as it expresses in financial terms the cost of implementing those plans and shows the income, expenditure and cash-flows associated with projected levels of activity.

The financial plan is intended to help each college's governing body and funding body to assess the financial effect of a college's strategic and development plans. It is important to include in the financial plan the costs of implementing the college's approved property strategy for the plan period.

Information requested in July each year

1.7 Colleges must return one copy of the documents in Table 1 to the appropriate funding body no later than 31 July.

Table 1: Summary of information requested by 31 July

	General FE colleges	Sixth-form colleges	Submission to:
Financial plans			
• Two-year financial plan electronic (Excel) version • Electronic (Word) commentary • Scanned copy of the front sheet of the financial plan	✓ ✓ ✓		**SFA** at: pfm@sfa.bis.gov.uk
• Two-year financial plan electronic (Excel) version • Electronic (Word) commentary • Scanned copy of the front sheet of the financial plan		✓ ✓ ✓	**EFA** at: externalassurance.EFA@education.gsi.gov.uk

Colleges **must only** send electronic versions of documents to the relevant funding body. The funding bodies **do not** require colleges to return hard (paper) copies.

1.8 Where colleges are planning to merge after the deadline for the receipt of financial plans, then all parties must still submit a copy of their two-year financial plan. If the merger is occurring before, or on 31July, then the appropriate funding body should only receive a copy of the merged college's financial plan by the required deadline of 31 July.

1.9 Where a college is developing a strategic recovery plan and cannot provide a reliable two-year financial plan at 31 July, then it may seek consent from the appropriate funding body to provide a one-year financial plan (showing the expected out-turn for the current year and the budget for the forthcoming year). The college must submit this shortened financial plan to the appropriate funding body by the required deadline of 31 July.

1.10 Colleges that need further clarification should contact the appropriate funding body at the earliest opportunity.

1.11 The financial planning template is available to download from either of the following websites: GOV.UK and AoC.

1.12 Neither of the funding bodies is in a position to provide guidance in this Handbook on assumptions to use in the financial plans. The AoC may separately suggest possible approaches, but colleges will make their own decisions as to the most realistic assumptions.

1.13 Colleges will also wish to consider their financial plans on a worst-case scenario basis. The worst-case scenario may be considered as part of a sensitivity analysis or a separate financial plan. The sensitivity analysis may also address more favourable outcomes than those included in the financial plan, where appropriate. The college's sensitivity analysis is expected to form an integral part of the college's risk management plan.

Commentary to the plan

1.14 The commentary to the financial plan is an important component of the return and should demonstrate clearly how the financial plan is consistent with the college's own strategic plans. A suggested checklist for colleges is attached as Annex 1 to this Handbook.

Benchmarking

1.15 The relevant funding body publishes a spreadsheet each year containing data from the vast majority of college finance records. A copy of the latest financial year's data is available to download from GOV.UK.

Financial plan template

1.16 We have made no significant changes to either the structure or content of this year's template. However, the funding bodies are committed to further improving the financial plan template for subsequent years to ensure that, as far as possible, it continues to be simplified and made easier to use.

1.17 Colleges must complete the financial plan template for the following reasons:

a capital project applications

c reorganisations, such as college mergers

d recovery plans

e the financial consequences of the college's strategic and development plan (submission date 31 July each year).

1.18 If colleges need to complete more than three years in the financial plan, then they should 'unhide' the respective columns in each worksheet.

1.19 The templates are available on the websites listed at paragraph 1.11 above as Excel workbooks. Colleges should submit completed plans in line with the table at paragraph 1.7 above.

1.20 For further information, please email the appropriate funding body:

- SFA: pfm@sfa.bis.gov.uk
- EFA: externalassurance.EFA@education.gsi.gov.uk

Principal's statement in the financial plan

1.21 The college's accounting officer should sign the Principal's Statement to confirm that the college's corporation has approved the financial plans and that the plans support the college's strategic plan.

Financial plan

1.22 The financial plans are used for a number of purposes. The funding bodies expect colleges to use the plan for internal planning and monitoring purposes, and review each plan alongside the associated data. This helps them to form an opinion on the financial health of the college and to determine whether there are issues to be raised with them.

1.23 The funding bodies aggregate all financial plans to give a summarised view of the financial health of the sector. The information also provides a basis for advice to the Secretaries of State for Business, Innovation and Skills (BIS) and the Department for Education (DfE). Aggregate data are also used to respond to queries from colleges and government.

1.24 Therefore, it is important that a college's financial plan presents a realistic view of its position so that the appropriate funding body and government department obtains a realistic picture of the financial health of the college and sector.

Risk management and disaster management plans

1.25 The CFDG published a good practice guide to risk management within the further education sector in 2011. This should help colleges to demonstrate compliance with the UK Corporate Governance Code or the English College's Foundation Code of Governance.

1.26 Colleges are not required to submit copies of their risk management and disaster management plans with their two-year financial plan, but they are still expected to update these documents regularly.

1.27 Where a college is submitting a capital project, recovery plan or undertaking a reorganisation, the funding bodies reserve the right to ask for a copy of the college's risk management plan.

Resubmission of plan

1.28 If the college's circumstances have significantly deteriorated since the submission of the financial plan (for example, if the actual out-turn for the year to 31 July 2015 was significantly different from the assumption in the plan), then they may be required to resubmit their plan. Colleges that are required to resubmit their plans will be advised by the appropriate funding body.

Requirement to notify the responsible funding body

1.29 The college should notify the appropriate funding body in writing if at any time there is a significant deterioration in its financial position.

2 Monitoring the financial health of colleges

Background

2.1 The funding bodies monitor the financial health of the providers that they fund. This includes assessing colleges' financial health to understand the degree of risk they may represent if they do not have the financial resources to continue operating.

2.2 When a college ceases to operate, or there is a significant deterioration in its financial position, the funding bodies face the risks of:

a. learners suffering when their learning provision is disrupted or terminated

b. being unable to recover any funds owed to them by the college (for example, funds paid on profile in excess of learning provided at the time learning ceases).

2.3 Both risks, which may be present simultaneously, could compromise the appropriate funding body's statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, the appropriate funding body gathers assurance that the college has the necessary financial resources to:

a. remain able to operate throughout the life of its funding agreements

b. fully discharge its obligations under those funding agreements.

2.4 The two key financial documents used to gather this assurance are the college's financial plan and the college's financial statements. The guidance and submission requirements for the financial plan are provided in this Handbook, while the guidance on the completion of the financial statements is provided in the Accounts Direction Handbook.

Financial plan

2.5 The financial plan is intended to help each college's governing body, and the appropriate funding body, to assess the financial effect of a college's strategic plans.

2.6 Colleges must approve a budget before the start of the academic year (1 August). Colleges are also required to include this budget as the first year in their financial plans.

Financial health assessment

2.7 The funding bodies' approach to grading the financial health of colleges is incorporated into the college financial returns.

2.8 The financial health grading system will remain unchanged for the academic year 2014 to 2015. However, as discussed with the AoC and CFDG, the funding bodies intend to consult on proposed amendments to the financial health system with the objective on introducing it in the financial returns for the academic year 2015 to 2016. The aims of those changes would be to reflect the accounting changes introduced by the revised FE and HE Statement of Recommended Practice and to better reflect the financial health of colleges, especially the level of borrowing.

2.9 Under the existing financial health grading system a college's financial health is assessed according to one of four grades: outstanding, good, satisfactory or inadequate.

2.10 Where ta college's financial health is graded as 'inadequate' for the previous year (forecast or actual out-turn) or the current year (budget), this will form the basis for issuing a Financial Notice of Concern or a Financial Notice to Improve, in accordance with the guidance published by the relevant funding body.

2.11 One objective of the approach is that the automatically calculated health grade (autoscore) should require moderation in relatively few instances.

2.12 The moderation and validation process in relation to financial health assessments requires the appropriate funding body to review and confirm colleges' financial health grades based on each financial return.

Grade definitions and scoring

2.13 The grade definitions under the methodology are summarised below:

Grade	Definition	Indicators
1 Outstanding	A provider that has very robust finances to fulfil its contractual obligations and to respond successfully to opportunities or adverse circumstances.	Normally, a provider with excellent / good indicators for solvency (current ratio), performance (cash-based operating surplus/ (deficit) to income ratio), and gearing (borrowing to net assets ratio).
2 Good	A provider that has sufficiently robust finances to fulfil its contractual obligations, and to respond successfully to most opportunities or adverse circumstances.	Normally, a provider with at least two good indicators for solvency, performance and gearing.
3 Satisfactory	A provider that appears to have sufficient resources to fulfil its contractual obligations, but also appears likely to have limited capacity to respond successfully to opportunities or adverse circumstances.	Normally, a provider with at least two satisfactory indicators for solvency, performance and gearing.
4 Inadequate	A provider that is in financial difficulty and very likely to be dependent on the goodwill of others. There is a significant risk of providers in this group not being able to fulfil contractual obligations because of weak financial health.	Normally, a provider with at least two inadequate indicators for solvency, performance and gearing.

2.14 The table below sets out the scoring for each of the three ratios:

Score	Adjusted current ratio	Cash-based operating surplus/ (deficit) as a % of income	Borrowing as a % of net assets
0	< 0.5	< 0	>/= 90 or negative
10	>/= 0.5	>/= 0	< 90
20	>/= 0.6	>/= 1	< 80
30	>/= 0.7	>/= 2	< 70
40	>/= 0.8	>/= 3	< 60
50	>/= 1.0	>/= 4	< 50
60	>/= 1.2	>/= 5	< 40
70	>/= 1.4	>/= 6	< 30
80	>/= 1.6	>/= 7	< 20
90	>/= 1.8	>/= 8	< 10
100	>/= 2.0	>/= 9	0

2.15 The adjusted current ratio excludes restricted cash from disposal of fixed assets held for future reinvestment AND assets held for resale (that is, those previously transferred from fixed to current assets).

2.16 The cash-based operating surplus figure is calculated as operating surplus plus depreciation less associated capital grant releases, exceptional support and pension finance income plus FRS 17 (staff costs) adjustment.

2.17 The three scores above are then totalled and the financial health grade is calculated as follows:

Points	Grade
240 - 300	Outstanding
180 - 230	Good
120 - 170	Satisfactory
</= 110	Inadequate

Underlying financial health

2.18 For the financial plan, the financial health grade for each year is initially calculated and subject to moderation where appropriate. An underlying financial health grade is then be assessed based on the points scored and the grades for the immediate past and current years. This underlying grade may be updated subsequently based on the audited financial statements or other new information, until the next financial plan return.

2.19 Colleges should direct any queries about the approach on financial health assessment to the relevant funding body in the first instance.

Moderation criteria

2.20 The financial health grades based on auto scores in colleges' financial plan and finance record returns can only be moderated in accordance with the criteria set out below.

2.21 Where a college scores zero points for one of the three ratios then it can be graded no better than satisfactory. For the academic year 2014 to 2015 this moderation is automatically included in the calculations within the financial plan template.

2.22 Capital projects

For colleges undertaking a significant capital project (greater than the lower of £5 million or 25 per cent of income) with an autoscore of 'inadequate' at their 31 July year-end that lies within the capital project lifecycle. The capital project lifecycle is defined as the date the project started to the financial year in which either the project ends or the final grant payment is made by the relevant funding body. The financial health grade may be uplifted to 'satisfactory' rather than using the autoscore of 'inadequate', provided that:

a. The college is graded outstanding, good, or satisfactory at the time of the detailed project approval.

b. It will return to a grade of at least satisfactory by the year following either project completion or the final grant payment by the relevant funding body.

c. It performs at least as well (in the opinion of the relevant funding body) as forecast in the project proposal during the intervening years. However, if a college performs less well than it forecast then the funding body will reflect this in its assessment.

This will ensure that colleges which are undertaking a significant capital project but which are otherwise financially sound, do not come into scope automatically for a Notice of Concern for Financial Health or Financial Notice to Improve in respect of their financial health.

2.23 Professional fees associated with capital projects

Where a college has incurred significant professional fees, which could not be capitalised, in relation to a capital project development, then it may make a case seeking moderation (to one grade higher or one grade lower).

2.24 Staff restructuring

Where a college incurs significant staff restructuring costs in a single year (‘significant’ defined as more than 5 per cent of staff costs), then it may make a case seeking moderation (to one grade higher or one grade lower).

2.25 Exceptional financial support / advances of funding

The funding bodies or the Department for Business, Innovation and Skills may provide exceptional financial support / advances of funding to protect the continuity of provision for learners in cases of financial distress. Where a college is in receipt of such financial support at the financial year-end, this would normally lead to an ‘inadequate’ grade for financial health being reported for that year.

2.26 Cash generation

Where the cash being generated year-on-year is more than sufficient to enable a college to meet its net current liabilities, then this may lead to an autoscore of ‘inadequate’ being moderated to ‘satisfactory’.

2.27 Other

Where information other than the latest available audited financial statements or financial plan, supported by factual evidence, indicates that the financial health is significantly different from the autoscore. ‘Significantly’ would here be defined as sufficiently different to generate an autoscore at least one grade lower. Examples might include (but would not be limited to):

a. a court ruling which has financial consequences

b. the loss or significant reduction of a material contract or area of provision

c. a significant recovery of funds following a funding audit or investigation

d. a contingent liability crystallising.

Self-assessment of financial health

2.28 As part of their plan submission, colleges are asked to provide a self-assessment of their financial health. The guidance on financial health self-assessment is based upon the principles that:

a the prime responsibility for a college’s financial health rests with the college b self-assessment provides the impetus to improve a college's financial health and is most effective when it is structured, rigorous and continual

c both the college's self-assessment and the appropriate funding body's assessment of the college's financial health should be based on the same published guidance, including any moderation criteria

d the college's board of governors should confirm the self-assessment.

3 Funding body guidance

Introduction

3.1 The funding bodies periodically publish guidance which sets out their respective key operational policies that will inform the planning and delivery of future provision. Colleges are advised to refer regularly to the two organisations' websites for updates to the respective funding body's guidance.

3.2 The respective funding bodies will not provide colleges with detailed planning assumptions. Colleges are expected to base their financial plans on the local circumstances which apply to them. Colleges should provide a detailed narrative in support of their financial plan template, outlining their various planning assumptions. The respective funding body will use these as part of their review process for college financial plans.

SFA

3.3 The SFA regularly produces Update, which is a weekly round-up of business-critical information and news for the FE sector. Colleges are advised to check the GOV.UK website regularly to ensure that they remain informed of the SFA's latest policy and funding developments.

EFA

3.4 The EFA produces fortnightly e-bulletins that aim to share important information with providers and local authorities. Any major policy updates are covered in these e-bulletins. Colleges are advised to check this section of the EFA's website regularly. To subscribe to receive the fortnightly e-bulletin by email, please email efa.bulletin@education.gsi.gov.uk (requesting the bulletin relevant for colleges).

4 Commentary to the plan

Introduction

4.1 Colleges are required to provide a commentary to support the financial plan. The commentary is an important component of the plan and it should clarify the following points:

a. how the financial plan is consistent with the college's own strategic plan

b. major movements between plan periods for income and expenditure account and balance sheet headings

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

d. the contribution made by different areas of activity

e. the college's self-assessment of its financial health and an explanation of any variance from the computed financial health grade.

4.2 A suggested checklist is provided as an Annex to this Handbook on issues to consider when completing the financial plan and commentary. The checklist is for colleges' own use and they do not need to return it to the appropriate funding body.

Financial objectives

4.3 To assist the college in achieving its strategic plans, the governing body should set financial objectives or targets. The purpose of setting such objectives is to establish limits within which the college should operate. Governors may wish to set targets for aspects such as solvency, reserves and dependency on certain types of income. When the appropriate funding body reviews colleges' financial plans, they consider whether the targets set by those colleges are appropriate, particularly for solvency.

Assumptions

4.4 Colleges are expected to base their financial plans on the local circumstances which apply to them. Colleges should either complete schedule 6 of the financial planning template to state their key assumptions or include them as part of their commentary to accompany the financial plan. It is not mandatory for the supporting commentary to contain a statement of key assumptions, but we recommend colleges use the commentary to clarify the assumptions used.

Sensitivity analysis

4.5 The information in the financial plan should reflect the financial effect of the planned levels of activity described in a college's strategic plans. Due to the continued pressure on public funding this will require colleges to adopt an even more rigorous approach to the preparation of their plans, risk assessment and sensitivity analyses. The sensitivity analysis schedule of the financial planning template is available to colleges to demonstrate the financial implications if more unfavourable conditions apply. Therefore, colleges are advised to examine critically the underlying key assumptions and to assess realistically the effect of adverse circumstances and failure to meet their plans.

4.6 Colleges may wish to use schedule 5 of the financial planning template to perform a sensitivity analysis and use the commentary to highlight the results of their analysis and to expand on or clarify the contents of schedule 5. Alternatively, colleges may wish to include a full sensitivity analysis within the commentary.

4.7 Some planning assumptions have critical implications for a college's strategic plan and the consequences of alternative outcomes can be complex. For example, a major project that would not proceed without third party support could affect a college's growth or the number of staff employed, leading to a very different outcome from the original financial plan.

4.8 Where a financial plan contains critical assumptions of this nature, colleges are advised to complete a second plan based on the alternative scenario and to share it with the appropriate funding body. Where a college considers that different outcomes have an impact on its financial viability, it is considered essential that an alternative financial plan is produced that reflects the impact of those changes.

4.9 Colleges should identify contingency actions to mitigate the consequences of the identified sensitivities. Colleges should discuss with the appropriate funding body where these actions lead to a rationalisation of provision in any programme area or locality. To appreciate the implications of sensitivities, it is important that they are costed.

Risk management plans

4.10 The CFDG published a good practice guide to risk management within the FE sector in 2011, which should help enable colleges to demonstrate compliance with the UK Corporate Governance Code or the English College's Foundation Code of Governance.

4.11 Colleges are not required to submit copies of their risk management and disaster management plans with their two-year financial plan, but colleges are still expected to update these documents regularly.

4.12 Where a college is submitting a capital project, recovery plan or undertaking a reorganisation, the appropriate funding body will reserve the right to ask for a copy of the college's risk management plan.

Disaster management plans

4.13 Colleges may wish to integrate disaster management planning with their risk management plan. However, it may be considered appropriate to have a separate section that deals with more extreme risks. Responses to disasters are likely to require more far-reaching actions that, in turn, have an impact on other aspects of the college. Of necessity, this “domino effect” will involve more resources. Conversely, major disasters are far less likely to occur.

Financial objectives adopted by colleges

4.14 Colleges should set clear financial objectives that support the achievement of their strategic objectives. They should monitor progress against these objectives and report on them periodically through a series of performance indicators.

4.15 Example indicators might include:

a. Maintaining a sound financial base (solvency and liquidity) based on the following:

   i. We will have a general reserve of XX per cent of income by 31 July 20XX and YY per cent by 31 July 20XX.

   ii. We will maintain cash days of XX or more at all times.

   iii. We will achieve break-even by 31 July 20XX and have an operating surplus by 31 July 20XX.

   iv. We will generate a cash inflow from operating activities by 31 July 20XX.

   v. We will reduce borrowing to XX per cent of general reserves by 31 July 20XX, and YY per cent by 31 July 20XX.

   vi. We will have a current ratio of more than XX: 1 by 31 July 20XX).

b. Improving financial management by producing management accounts each month, incorporating an income and expenditure account, balance sheet, 12-month rolling cash-flow forecast, capital expenditure, financial performance indicators, staffing information and funding information (including plans).

c. Strengthening procedures for testing the desirability and affordability of any proposals which have a financial implication by 31 July 20XX.

d. Introducing post-implementation review procedures to assess the success or otherwise of major investments (building, information technology, staffing, marketing and so on) exceeding £X by 31 July 20XX).

e. Maintaining the confidence of funding bodies, suppliers and professional advisers by:

    i. Providing financial and non-financial returns on time and in the agreed format.

    ii. Ensuring all returns requiring certification by auditors are unqualified and submitted on time.

    iii. Adhering to the college's policy to pay all suppliers within XX days of receipt of an invoice.

f. Raising awareness of financial issues by:

    i. Providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the college's financial procedures.

    ii. Providing adequate information to ensure that staff, management and governors are kept up-to-date with the financial position of the college.

g. Improving the college estate and equipment by:

i. Generating sufficient funds to ensure that the college can undertake its specified programme of planned maintenance.

ii. Generating sufficient funds to ensure that the college can invest in the new technology and equipment required to support learning programmes and college administration.

iii. Ensuring adequate procedures are in place to protect assets from loss, theft and neglect.

5 Guidance on completing the financial plan template

Financial plan template

5.1 While no significant changes have been made to either the structure or content of the template since last year the funding bodies and AoC are committed to further improving the financial plan template for subsequent years to ensure that, as far as possible, it is further simplified and more user-friendly.

5.2 Colleges must complete this financial plan template for the following reasons:

a. capital project applications

b. reorganisations, such as college mergers

c. recovery plans

d. the financial consequences of the college’s strategic plans (submission date 31 July each year).

5.3 If colleges need to complete more than three years in the financial plan, then they should unhide the respective columns in each worksheet.

5.4 The “copy and paste” function in Excel will cause protected cells to change their formulae and may cause the “Ref!” error message to appear. Therefore, colleges should not use this function when completing their plans. Furthermore, they should not add additional worksheets into formal plan submissions. The appropriate funding body will check plan submissions and reject those that do not comply in this regard.

Format

5.5 The first sheet is a guidance notes page, which provides guidance on certain aspects of the template.

5.6 The second sheet (the “cover sheet”) is the Principal’s Statement. This represents an executive summary of the key features of the plan and shows the self-assessed financial health rating for the college for the first four years of the template.

5.7 A contents page is included after the Principal’s Statement to show all the tables and schedules in the financial plan.

5.8 The next four sheets, known as tables, represent a summary of the financial position of the college, and contain three primary statements and ratio analysis:

a. income and expenditure account (Table 1)

b. balance sheet (Table 2)

c. cash flow (Table 3)

d. ratio analysis (Table 4).

5.9 If the reader of the financial plan requires further information from that shown in the tables, then the working papers to these tables are provided in the schedules, for example, the backing documents to:

a. Table 1 income and expenditure account are Schedules 1a to 1f

b. Table 2 balance sheet are Schedules 2a to 2g

c. Table 3 cash flow is Schedule 3.

5.10 Schedule 4 shows the indicative financial health calculation.

5.11 Schedule 5 is a sensitivity analysis, which enables colleges to conduct “what if” analyses.

5.12 Schedule 6 sets out the key assumptions colleges have made in producing their plan.

5.13 Colleges may wish to complete Schedules 7a to 7d when they are considering a capital project application submission to their Local Enterprise Partnership (LEP)

5.14 The cells containing formulae deriving data from other tables and schedules have a light red background to make the plan more user-friendly where completed by the partially sighted.

5.15 On most of the sheets an optional narrative box is included. This enables colleges to write specific notes which relate to the composition of the figures in that form. While there is no requirement for these boxes to be completed or to be part of the submission, colleges may wish to use them to explain any variances, assumptions or risks, although we recommend that this information is also included in the commentary to the plan.

5.16 The template is called “Financial Plan.xlsx”.

Form layout

5.17 The screen titles will differ depending on the form selected. Depending on the screen settings of the monitor, only part of a form may be seen at any time. To change the display within the current screen settings, choose the percentage adjuster on the standard toolbar. Click on the scroll bar or the up and down arrows on the scroll bar to navigate within the form.

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

5.19 The first year of the financial plan must be the expected out-turn for the current year. For example, a two-year financial plan covering the period 2015 to 2017 must have 2014/15 as its first year in the template.

5.20 Prepare all figures on the accruals basis of accounting, unless otherwise stated. Show all income and expenditure gross. Where boxes are shaded light blue the software calculates their value automatically. Please do not include in the main part of the financial plan any income and expenditure where the college acts as an agent, for example Learner Support Funds.

Error messages

5.21 If any of the tables or schedules are incomplete an error message will appear in red text. **Ignore these until all tables and schedules are complete**. If you continue to see error messages after entering all of the figures, then investigate the cause. **Please clear all error messages before returning the financial plan to the appropriate funding body**.

Negative figures

5.22 Within the financial plan application, entry of negative figures is only permitted in certain lines. These are marked as '-ve' in red next to the relevant lines (for example within Schedule 2a Tangible fixed assets).

Potential problems

5.23 If you do not complete all schedules, the individual forms will display error messages, as explained above. It is necessary to save a table or schedule before exiting and the application will prompt you to do so when you try to close the template from a table or schedule. If you do not make amendments the form will close without prompting a save. You will lose amendments to the table or schedule if you do not save the table or schedule.

Annex 1

Suggested Checklist for the Financial Plan Commentary

The suggested checklist below is for colleges' own use and you do not need to return it to the appropriate funding body.

	Checklist points	Yes / No / Not Applicable
1.	**Financial Objectives** • Has the college set detailed financial objectives? Are they set out in the commentary? • Has an assessment been included in the commentary of the extent to which they have been achieved?	
2.	**Strategic plan** • Is there a clear link between the projected learner numbers included in the college's strategic plan and the movement in funding? If not, please explain any changes in the commentary. • Do the staff costs included in Schedule 1d of the plan reflect future staffing plans? • Does the financial plan reflect the financial implications of the college's property strategy? • Does the financial plan demonstrate that the college's financial objectives are being achieved? If they are not, is this addressed in the commentary? • Has a comprehensive sensitivity analysis been completed?	
3.	**Approval** • Has the governing body approved the plan?	
4.	**Key Assumptions** • Does the commentary include assumptions about: - movements in funding and learner funding rate - income from the funding bodies other than the main funding streams - income from other sources, in particular education contracts, tuition fees, European funds, commercial activities and so on	

	Checklist points	Yes / No / Not Applicable
	- implementation of property strategy, in terms of capital investment, long-term maintenance and routine maintenance - increases in staffing costs arising from the effects of pay awards made - changes in national insurance contributions - changes in pension fund contributions - incremental drift: where incremental scales exist, estimate the gain resulting from staff losses at the high end of the scale being offset by new staff at the lower end - any changes anticipated for the local government pension scheme? • Does the commentary include the general level of pay awards assumed in the plan? • Does the commentary state any variation in the general inflation rate for specific items of income or expenditure? • Does the commentary state the interest rates assumed? • Does the commentary state the assumptions underlying income from all sources and all expenditure cuts? • Does the commentary give details of the college's planned maintenance programme, if applicable?	
5.	**Self-assessment of financial health** • Has the governing body made regular assessments of the college's financial health? • Has a review of the strategic plan and financial plan taken place in order to assess whether the college is able to support its plan with the resources identified? • Have the underlying strengths and weaknesses of the college's financial position been examined in order to assess the extent to which the college is likely to be vulnerable to adverse variances? • Does the commentary explain the college's rationale for its financial health self-assessment? • Does the commentary give reasons for any moderation from the automated health group assessment, if applicable, and are the grounds for moderation appropriate?	

	Checklist points	Yes / No / Not Applicable
6.	**Principal's Statement** • Has the financial health self-assessment been completed? • Has the budget statement been completed? • Has the Principal signed the form? • Does the Principal's Statement give the name and telephone number of the contact person for all enquiries?	
7.	**Table 1** • Does the commentary explain significant year-on-year movements? • Does the commentary explain any variances between the latest estimate of out-turn for the current year and the original budget?	
8.	**Tables 2 and 3** • Does the commentary identify significant asset purchases and disposals, including consents and purposes? • Does the commentary give the details of any loans, including consents and background? • Does the commentary explain significant year-on-year movements in debtors and creditors?	
9.	**Schedules 1a, 1b and 1c** • Does the commentary include the sources of grant income? • Does the commentary include the nature of any repayment of ESF funding? • Does the commentary include the sources of income from franchising provision? • Does the commentary include the main income-generating activities?	
10.	**Schedules 1d and 1e** • Does the commentary give details of any provisions included in expenditure? • Does the commentary explain large year-on-year movements?	

	Checklist points	Yes / No / Not Applicable
11.	**Schedule 1f** • Has the reconciliation of movements between years been completed?	
12.	**Schedule 4** • Have the self-assessment boxes been completed, including the narrative box (where appropriate)?	

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