

# SFC Call for information

## Quarter 2 Resource Return 2016-17

Issue date: 3 October 2016

Deadline: 17 October 2016

Reference: SFC/CI/05/2016

Summary: The Quarter 2 Resource Return will be used by the Scottish Funding Council (SFC) to monitor the sector's adherence to revenue and capital resource budgets.

FAO: Directors of Finance of Scotland's colleges (incorporated colleges only)

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## **Quarter 2 Resource Return 2016-17**

### **Purpose of the Return**

1. The Quarter 2 resource return will be used by the Scottish Funding Council (SFC) to monitor the sector's adherence to resource and capital budgets. Sector level information is sent to the Scottish Government and then onto HM Treasury for consolidation into its Online System for Accounting and Reporting (OSCAR).
2. The timing of the quarterly reports and their provisional submission dates to SFC are as follows:
  - **Quarter 1 - 18 July 2016.**
  - **Quarter 2 - 17 October 2016.**
  - **Quarter 3 - 18 January 2017.**
  - **Quarter 4 (1) - 15 February 2017.**
  - **Quarter 4 (2) - 20 March 2017.**
  - **Quarter 4 (3) - 17 April 2017.**

**Returns are based on the April to March financial year and it is critical that colleges adhere to the return dates shown above.**

3. SFC will shortly be sending colleges an individual pre-populated spreadsheet for completion. This will reflect annual budget figures submitted by colleges in Quarter 1.

### **Background**

4. The UK Office for National Statistics (ONS) has reclassified all incorporated colleges as central government entities for the purposes of accounting and budgeting. This has had a direct impact on the way in which SFC is able to fund these colleges and, in particular, the system of paying grants on the basis of a profile announced in advance is no longer possible.
5. It is SFC's responsibility to allocate both cash and resource budgets to colleges in order to support the delivery of their Outcome Agreements. SFC will:
  - Distribute cash budgets on the basis of need.
  - Monitor the cash paid out by SFC against the overall Financial Year cash budget.
  - Monitor colleges' spend and forecast outturn against approved resource budgets.
  - Monitor college sustainability.

- Provide information to Scottish Government and to HM Treasury on the expected cash drawdown and on spend against resource budgets for the government financial year to 31 March.

### **Purpose of the annual revenue resource and capital resource budget pro-formas**

6. Following the ONS reclassification of incorporated colleges as public bodies, colleges are now part of the Central Government accounting and budgeting regime and subject to the same expenditure controls as SFC and other Government bodies. Prior to ONS reclassification, in SFC's own resource returns to government, college grants paid out scored as expenditure against the SFC Resource Departmental Expenditure limit (RDEL) and Capital Departmental Expenditure limit (CDEL). However, following reclassification, the expenditure scored in SFC's resource return is now the actual expenditure incurred by colleges (rather than just the grant paid out). Colleges are allocated an annual resource expenditure budget and it is imperative that the net expenditure incurred in the financial year is within this RDEL or CDEL limit.
7. Net expenditure is defined as total expenditure less non-SFC income. For UHI colleges, other income will include the SFC HE grants as these are accounted for separately in the SFC resource return.
8. Colleges were notified of their 2016-17 financial year budgets on 26 May 2016 and have been requested to confirm the split between grant in aid and student support funding, and capital funding and maintenance, for the financial year 2016-17, based on their actual expenditure profiles. This budget represents the net expenditure limit against which the college will be monitored by SFC during the financial year.
9. Where colleges will be using grant in aid to fund their loan repayments, the net RDEL expenditure budget should not reflect this amount.
10. Colleges with subsidiaries that are incorporated within the college accounts must report the group position in this return.

### **Net depreciation cash**

11. We expect the application of net depreciation cash to be similar in 2016-17 to that of 2015-16 and we are currently working with colleges, Colleges Scotland and the Scottish Government to agree the details. We will write to colleges as soon as a clear proposal is developed.
12. For the purposes of the annual budget, we need to reflect the potential resource impact of using cash made available from net depreciation even though the final position is not yet agreed. As stated in our previous call for information, you should assume that the priorities for use of this cash are the

same as for 2015-16, recognising that this is a working assumption only. The priorities are student support, loan repayments and the costs of the 2015-16 pay award. The forecast use of depreciation funds should be entered into Table 4 of Annex A1.

### **Changes to the Resource Return format**

13. Annex A contains the following documents:
  - Quarter 2 resource return (Annex A1).
  - Annual Budget return (Annex A2).
14. There have been no changes to the format of the resource return or annual budget spreadsheet since the previous quarter.
15. In completing the return, the following points should be noted:
  - SFC income is not included in the body of the return as this is not relevant in monitoring the net expenditure budget. Any in-year movement in SFC funding will require colleges to update the net expenditure budget lines accordingly.
  - A separate line is included for revenue grants received from Arms-Length Foundations.
  - There is no longer a requirement to report the split of student support budgets.
  - A cash drawdown table is included (Table 1). This will include actual cash drawdown to date and forecast drawdown compared to the total cash available per the allocation letter. Explanations are required for major variances forecast.
  - A comparison of net expenditure to SFC budget is included in the new Table 2 for RDEL and Table 3 for CDEL on Annex A1. Table 2 deducts loan repayments / provisions from the total budget to reflect the expected underspend from using grant in aid for balance sheet (i.e. non-RDEL) items.
  - Table 4 should reflect the planned use of 2016-17 depreciation.
  - Table 5 tracks the movement in the RDEL net expenditure budget during the year and also includes adjustments to take out the cash being used for loans / Lennartz / provisions.
  - Table 6 tracks the movements in the CDEL net expenditure budget during the year.
16. Detailed guidance on completion of the return and the new Tables is given in Annex B.

## Annual Budget

17. The Annual budget spreadsheet, as submitted by colleges in Quarter 1, is attached at Annex A2. This automatically updates the budget to date figures in Annex A1.
18. Colleges should update the annual budget as required to reflect any changes in funding allocation since the Quarter 1 submission

## Completing the Quarter 2 resource return

19. Colleges should complete the Actual year to date column and the Forecast outturn column, both of which are highlighted in blue.
20. Detailed guidance for completion of each line of the return is given in Annex B.
21. Following implementation of FRS102, the treatment of certain items in the financial statements will not necessarily be mirrored in the resource returns. This is addressed more fully in the guidance at Annex B but, should colleges have specific queries not covered in the guidance, they should contact SFC as soon as possible.
22. Colleges should reflect all expenditure to date and forecast for the year including expenditure incurred on ESF projects even though the funding allocation may not yet be reflected in the SFC budget figures.

## Non-Profit Distribution projects

23. Colleges should reflect expenditure relating to SFC funded unitary charges, together with those costs being borne by the college, in the resource return. This should be allocated to RDEL or CDEL as appropriate, although the element of the unitary charge relating to payment of balance sheet creditors will be outwith budgeting.
24. Guidance on the accounting and resource treatment of NPD payments was issued in August 2015 to those colleges with NPD projects. If colleges have specific questions on this, they should contact SFC.

## Returns

25. The completed return should be sent to [gmap-returns@sfc.ac.uk](mailto:gmap-returns@sfc.ac.uk) by **Monday 17 October 2016**.

## Further information

26. Should you have any queries on the return or any contents of the guidance, please contact Dorothy Carson (Tel: 0131 313 6607 email: [dcarson@sfc.ac.uk](mailto:dcarson@sfc.ac.uk)) or Andrew Millar (Tel: 0131 313 6538; email: [amillar@sfc.ac.uk](mailto:amillar@sfc.ac.uk))

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