Financial Planning Handbook 2010 to 14

June 2011

This Handbook is of interest to principals and chief executives of colleges, finance directors at colleges, financial statements auditors, directors of funding bodies, local authorities and other key organisations in the learning and skills sector.

In partnership with

Financial Planning Handbook

Effective for all colleges' financial plans for the period 2011 to 2014

Summary

The Financial Planning Handbook (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 plans.
- readily accommodate changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the funding bodies.
- cut down on bureaucracy, in that the funding bodies will stop publishing financial planning documents in hard copy if they have not changed.

This Handbook is of interest to principals and chief executives of colleges, finance directors at colleges, financial statements auditors, directors of funding bodies, local authorities and other key organisations in the learning and skills sector.

June 2011

Published by the Skills Funding Agency and Young People's Learning Agency

This publication is available in an electronic form on the Association of Colleges, Skills Funding Agency and Young People's Learning Agency websites:

Contents

1 Overview of Financial Planning

1.1. The Financial Planning Handbook sets out guidance on financial planning information that the Skills Funding Agency and Young People's Learning Agency (YPLA) wish to receive by 31 July 2011 from colleges. Production of the Handbook has been a joint exercise involving the College Finance Directors Group (CFDG), the Association of Colleges (AoC), the Skills Funding Agency and the YPLA.

1.2. Colleges should approve an annual budget before the start of each financial year (1 August). This should be the first year of colleges' three-year financial plans. To assure that this is done and to provide the fundamental basis for monitoring colleges' financial health, an updated Handbook is now issued.

Intended recipients

Although this Handbook will be of interest to all providers, only colleges are required to provide three-year financial plans to the Skills Funding Agency or YPLA.

Status

For response by 31 July 2011

Supersedes

Financial Planning Handbook 2010 to 2013

Main Changes from the previous planning handbook

1.3. Main changes

- The introduction of the revised Financial Health scoring mechanism
- The inclusion of an updated Chapter 3, providing broader sources of guidance from the funding bodies which colleges should use to inform their planning assumptions. This replaces the previous Chapter 3 published up to 2009 which set out in more detail assumptions colleges should use.

Financial plans 2011 to 2014

1.4. The funding bodies are required to monitor the financial health of providers. In addition to this formal requirement, they assess colleges' financial health to understand the degree of risk they may represent if they do not have the financial resources to continue operating.

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

- learners suffering when their learning provision is disrupted or terminated
- being unable to recover any funds owed to it by the college (for example, funds paid on profile in excess of learning provided at the time learning ceases).

1.6. Both risks could compromise the funding bodies' statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, assurance is sought to ensure that the college has the necessary financial resources to:

- remain able to operate throughout the life of its funding agreements
- fully discharge its obligations under those funding agreements

1.7. The two key financial documents used to seek this assurance are the college's three-year financial plan and the college's financial statements. The guidance and submission requirements for the three-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.

1.8. The three-year financial plan should be an integral part of each college's own strategic and development plans, as it expresses in financial terms the cost of implementing those plans and shows the income and expenditure associated with projected levels of activity. The financial plan is intended to help each college's governing body and its 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 property strategy for the plan period, to the extent this has been approved. Further guidance on this is included in chapter 3 of the Financial Planning Handbook.

1.9. Colleges are reminded that the governing body should approve financial plans, and that budgets for 2011/12 should be approved before 1 August 2011.

Information requested in July 2011

1.10. One copy of the documents in Table 1 must be returned to the appropriate funding body no later than 31 July 2011.

Table 1: Summary of information requested by 31 July 2011

	General FE colleges	Sixth Form colleges	Submission to:
Financial plans			
Three-year financial plan electronic (Excel) version **plus** electronic (Word) commentary Paper copy or signed scanned copy of above	✓		Skills Funding Agency – Coventry pfm@skillsfundingagency.bis.gov.uk
Three-year financial plan electronic (Excel) version **plus** electronic (Word) commentary Paper copy or signed scanned copy of above		✓	YPLA at afm@ypla.gov.uk

1.11. Where colleges are planning to merge after the deadline for the receipt of the financial plans, then all parties must still submit a copy of their three-year financial plan. If the merger is occurring before or on 31 July 2011 then the appropriate funding body should only receive a copy of the merged college's financial plan by the required deadline of 31 July 2011.

1.12. Where a college is developing a strategic recovery plan and cannot provide a reliable three-year financial plan at 31 July 2011, then it may seek consent from the appropriate funding body to provide a financial plan for only the first two years (the first year will show the expected out-turn and the second year will be the budget which must be in place prior to start of financial year.) This shortened financial plan must be submitted to the appropriate funding body by the required deadline of 31 July 2011.

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

1.14. The financial planning template is available to download from the any of the following websites: Skills Funding Agency, YPLA and AoC.

1.15. Neither the skills Funding Agency or the YPLA are in a position to provide guidance on assumptions to use in the financial plans in this handbook. The AoC may separately suggest possible approaches, but colleges will make their own decisions as to the most realistic assumptions.

1.16. Colleges will also wish to consider their financial plans on a worst-case scenario basis. The worst-case scenario should be considered in a sensitivity analysis. The sensitivity analysis should 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.

1.19 Colleges should complete schedule 6 of the financial planning template to state their key assumptions. It is not mandatory for the supporting commentary to contain a statement of key assumptions; however colleges are advised to use the commentary to clarify the assumptions used.

Commentary to the plan

1.20. 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.

1.21. Colleges should discuss the risks inherent in their plans and consequent contingency planning with the appropriate funding body. To provide evidence of the robustness of the financial and risk management plans, the commentary should identify what actions have been agreed in this respect and their financial implications.

Benchmarking

1.22. Since 2004/05, the LSC (and from the current year the Skills Funding Agency) has published a spreadsheet containing data from the vast majority of college finance records. A copy of the 2009/10 spreadsheet can be downloaded from the Skills Funding Agency's website.

1.23. The funding bodies wish to publish better benchmarking on colleges' financial plans. It has been recommended by the CFDG that this could be done through publishing individual college financial plans. Therefore, line 10 of the Principal's Statement was amended in 2006 to include the words: "I agree that the data listed within this financial plan may be published by the LSC".

1.24. Chapter 5 of the Handbook provides some trend analysis between 2006/07 and 2009/10 for some key ratios. It is hoped that colleges will find this benchmarking material useful when preparing their financial plans.

Financial plan template

1.25. Following discussions with representatives of the CFDG, the LSC made significant changes to the financial plan template in 2006 including the introduction of a 10-year financial plan, five new capital schedules and a help facility within the template. Whilst no significant changes have been made to either the structure or content of the template for 2011, the funding bodies 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.

1.26. This financial plan template must be completed for the following:

- capital project applications
- reorganisations, such as college mergers
- recovery plans
- borrowing consent requests
- the financial consequences of the college's strategic and development plan (submission date 31 July each year).

1.27. If colleges need to complete less than 10 years in the financial plan, then they should hide the respective columns in each worksheet. Where a college cannot hide a column, then it should amend the print area so that only the period that is being reported is printed.

1.28. The templates are available on the websites listed at paragraph 17 above as Excel workbooks. Completed plans should be submitted in line with the table at paragraph 13 above.

1.29. A list of regional Skills Funding Agency contacts is set out below:

Division North	**Division Central**	**Division South**
Steve Dunmore	Andrew Neill	Chris Birt
Head of Portfolio PFM	Head of Portfolio PFM	Head of Portfolio PFM
Skills Funding Agency	Skills Funding Agency	Skills Funding Agency
8th Floor	17a Meridian East	1 Victoria Street
Arndale House	Meridian Business Park	London
Arndale Centre	Leicester	SW1H 0ET
Manchester M4 3AQ	LE19 1UU	Chris.Birt@skillsfundingagency.bis.gov.uk
Steve.Dunmore@skillsfundingagency.bis.gov.uk	Andrew.Neill@skillsfundingagency.bis.gov.uk	

1.30. The YPLA Assurance and Financial Monitoring team can be contacted via:

afm@ypla.gov.uk

1.31. For further advice on how to complete the financial plan template, or any other matters associated with this Handbook, colleges should contact their appropriate funding body.

1.32 For further information, please contact the appropriate funding body

- Skills Funding Agency web address: **pfm@skillsfundingagency.bis.gov.uk**
- YPLA web address: **afm@ypla.gov.uk**

Principal's Statement in the financial plan

1.33. The Principal's Statement should be signed by the college's accounting officer in order to confirm that the financial and risk management plans have been approved by the college's corporation and that they do, in fact, support the college's strategic plan.

Risk management and disaster management plans

1.34. The LSC published guidance for risk management planning to allow colleges to comply with the Turnbull Report on the Combined Code of Corporate Governance. This guidance is available here

1.35. Colleges are not required to submit copies of their risk management and disaster management plans with their 3-year financial plan, however colleges are still expected to update these documents on an ongoing basis.

1.36. Where a college is either 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 (January 2012)

1.37. If the college's circumstances have significantly deteriorated since the submission of the financial plan (for example, the actual out-turn for the year to 31 July 2011 is significantly different from the assumption in the plan), colleges may be required to resubmit their plan. Resubmissions will normally be required by 31 January 2012. Colleges that are required to resubmit their plans will be advised by the appropriate funding body.

Requirement to notify the appropriate funding body

1.38. The college should notify the appropriate funding body in writing if at any time there is a significant deterioration in its financial position (Financial Memorandum Part 1 paragraph 33).

2 Monitoring the Financial Health of Providers

Background

2.1 The Skills Funding Agency (Agency) and the Young People's Learning Agency (YPLA) are required, to monitor the financial health of providers. In addition to this formal requirement, they assess colleges' financial health to understand the degree of risk they may represent to them 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:

- learners suffering when their learning provision is disrupted or terminated
- 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:

- remain able to operate throughout the life of its funding agreements.
- 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 Financial Planning Handbook ('the 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 (which should be produced for a minimum of three years, but can be up to ten years) should be an integral part of each college's own strategic plans, as it expresses in financial terms the cost of implementing those plans and shows the income and expenditure associated with projected levels of activity. 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 and other providers is incorporated into the college financial returns. It results in one of four assessment grades: outstanding, good, satisfactory, or inadequate.

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

2.9 Where a college's financial health is identified as declining year on year, this will normally form the basis for requiring a financial improvement plan or equivalent, except where a college is implementing a major capital project, in accordance with the published guidance.

2.10 One objective of the approach is that the automatically calculated health grade (autoscore) should require moderation in a relatively small number of instances.

2.11 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.

2.12 **The Agency and the YPLA have reviewed the financial health grading system, in consultation with interested parties and stakeholders, so as to ensure it remains fit for purpose. Revisions to the system are incorporated into subsequent paragraphs of the Handbook, as well as this year's financial plan and finance record templates.**

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	Normally, a provider with at least two inadequate indicators for solvency, performance and gearing.

	providers in this group not being able to fulfil contractual obligations because of weak financial health.	

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 (i.e. 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

Note: Additional points for consistency across two or three ratios are no longer part of the grading system.

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 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 Any queries about the approach to financial health assessment should be addressed to the relevant funding body in the first instance.

Moderation of autoscore

2.20 The autoscore is moderated only in accordance with the criteria set out below.

Capital Uplift

2.21 For colleges undertaking a significant capital project (greater than £5m or 25% of income), with an autoscore of inadequate, at their 31st July year end (that is, 31st July lies within the capital project lifecycle which is defined as: date of project start to financial year in which either project ends or final grant payment made by the relevant funding body), then its financial health grade will be uplifted to 'satisfactory' rather than an autoscore of 'inadequate' in any year, provided that:

a. the college is graded outstanding, good, or satisfactory at the time of detailed project approval by the relevant funding body; and

b. it will return to a grade of at least satisfactory by year following either project completion or 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 its grade will reflect this.

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

Other Moderation Criteria

2.23 The following other moderation criteria will form the basis for moderation of financial health grades based on colleges' July 2011 financial plan returns and their 2010/11 finance record returns.

a. a college or provider may make a case seeking moderation (to one grade higher or one grade lower) on the following bases:
   - i where a college incurs significant staff restructuring costs in a single year ('significant' defined as >5% of staff costs); or
   - ii where a college has incurred significant professional fees, which could not be capitalised, in relation to a capital project development.

b. in addition, the relevant funding body will moderate a college's grade on the following bases:
   - i where a college is in receipt of advances of funds from the relevant funding body at the financial year-end, this would normally lead to an 'inadequate' grade for financial health being reported for that year;
   - ii where a college scores 0 points for one of the three ratios then it can be graded no better than satisfactory; and
   - iii 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 court ruling which has financial consequences;
     - the loss or significant reduction of a material contract or area of provision;
     - a significant recovery of funds following a funding audit or investigation; or
     - a contingent liability crystallising.

Self-assessment of Financial Health

2.24 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:

- the prime responsibility for a college’s financial health rests with the college
- self-assessment provides the impetus to improve a college’s financial health and is most effective when it is structured, rigorous and continual
- 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.
- the college’s board of governors should confirm the self-assessment.

Submission of Financial Statements

2.25 The funding bodies are required to collect and retain original copies of colleges’ audited financial statements. The financial memorandum requires that colleges submit these to the appropriate funding body within five months of the end of the financial year – that is, by 31 December each year.

2.26 Colleges are also required to submit an electronic version of their financial statements in a specific format (the finance record). This is to ensure the data is captured in a consistent format; to allow for comparison and analysis; and to form the basis for an update of the college’s financial health assessment. Further guidance on the Finance Record is given in the Accounts Direction Handbook.

3 Funding Body Guidance 2011/12 to 2013/14

Introduction

3.1 The Skills Funding Agency ('the Agency') and the YPLA periodically publish guidance which set out their respective key operational policies that will inform the planning and delivery of future provision. Providers are advised to regularly refer to the two organisation's websites for updates to the respective funding body's guidance.

3.2 The following guidance provides some of the main links to policy documents and guidance that has been issued by the respective funding bodies.

3.3 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 the various planning assumptions they have made. These will be used by the respective funding body as part of their review process for college financial plans.

Skills Funding Agency

3.4 In November 2010, the Department of Business, Innovation and Skills (BIS) published *Investing in Skills for Sustainable Growth* which set out the main funding priorities for 2011/12. In conjunction with *Further Education – New Horizon, Investing in Skills for Sustainable Growth* the strategies set out the coalition governments plans for the reform of the further education system.

3.5 The Agency regularly produces guidance notes for providers which provide detailed updates to the main FE policy and funding areas for which it is responsible. Colleges are advised to check this section of the Agency's website on a regular basis to ensure that they remain informed of the Agency's latest policy and funding developments. A brief description of some of the guidance notes published to date are:-

Guidance Note 7

3.6 Guidance note 7 covers procurement and contracting arrangements, information on the Adult Skills Budget, alignment with the Young People's Learning Agency, an update on Apprenticeships, information on the use of electronic records, and guidance on the removal of wage costs following the abolition of Train to Gain.

Guidance Note 6

3.7 Guidance note 6 is the Skills Funding Agency's technical and operational document for providers which reflects the publication of the Skills for Sustainable Growth (the Skills Strategy) and Further Education - New Horizon, Investing in Skills for Sustainable Growth (the Skills Investment Strategy).

Guidance Note 4

3.8 Guidance note 4 clarifies how the Skills Funding Agency will implement the freedoms and flexibilities for colleges, training organisations and employers announced by John Hayes on 17 June 2010. It includes the Agency's proposals for the transfer of £150m from Train to Gain to Apprenticeships and articulates a new approach to our relationship with, and performance management of, colleges and training organisations.

3.9 Guidance notes are issued by the Agency on a regular basis and form part of the Chief Executive's Funding Requirements and are therefore contractual for all colleges and training organisations that are funded by the Agency. It is the responsibility of each college that it complies with the guidance notes issued.

YPLA

3.10 The YPLA published its *16-19 Funding Statement* in December 2010 outlining the levels of funding and funding policies to be applied in 2011/12.

3.11 Future funding arrangements are set out in the *statutory guidance* issued in December 2010. This document confirms that future funding allocations for colleges will be calculated on the basis of the lagged number of learners participating in the previous year, taking into account recruitment through the year and flexible start dates.

3.12 The YPLA 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 YPLA's website on a regular basis.

4 Commentary to the Plan

Introduction

4.1 We ask colleges to provide a commentary to support the financial plan. The commentary is an important component of the plan. The commentary should clarify the following points:

- how the financial plan is consistent with the college's own strategic plan
- major movements between plan periods for income and expenditure account and balance sheet headings
- major variances between the latest out-turn estimate for the current year and the original budget
- the contribution made by different areas of activity
- the college's self-assessment of its financial health and an explanation of any variance from the computed financial health group
- a statement of the degree to which the college's risk management and disaster management plans comply with the guidance in the Turnbull Report on Corporate Governance (Turnbull Report).

4.2 A suggested checklist is provided at the back of this chapter on issues to consider when completing the financial plan and commentary. The checklist is for colleges' own use and does not need to be returned to the appropriate funding body.

Financial Objectives

4.3 In order 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.

4.4 To assist colleges in reviewing financial objectives and plan results, a variety of trend analysis for a number of key ratios is provided in Section 5 of this Handbook.

Assumptions

4.5 Colleges are expected to base their financial plans on the local circumstances which apply to them. Colleges should complete schedule 6 of the financial planning template to state their key assumptions. It is not mandatory for the supporting commentary to contain a statement of key assumptions, however we recommend colleges use the commentary to clarify the assumptions used.

Sensitivity Analysis

4.6 The information in the financial plan should reflect the financial effect of the planned levels of activity described in a college's strategic and three-year development plans. However, these plans are based on assumptions containing some degree of uncertainty. This uncertainty has been exacerbated in the current year with the continued economic downturn, the continued pressures on public sector funding and the recent change in Government. . 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 is intended to show the financial implications if more unfavourable conditions apply. Therefore, we require colleges to examine critically the underlying key assumptions and to assess realistically the effect of adverse circumstances and failure to meet their plans.

4.7 Colleges should complete schedule 5 of the financial planning template to perform a sensitivity analysis. It is not mandatory for the supporting commentary to contain comments on the sensitivity analysis, however we recommend that colleges should use the commentary to highlight the results of their analysis and to expand or clarify the contents of schedule 5.

4.8 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.

4.9 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.

4.10 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.

4.11 To appreciate the implications of sensitivities, it is important that they are costed.

4.12 Colleges are reminded that their sensitivity analysis should be an integral element of their risk management plan.

4.13 When reviewing colleges' financial plans, the appropriate funding body will consider the adequacy of the sensitivity analysis and contingency planning that has been carried out.

Risk Management Plans

4.14 The LSC published guidance for risk management planning to allow colleges to comply with the Turnbull Report on the Combined Code of Corporate Governance. This guidance is available here.

4.15 Colleges are not required to submit copies of their risk management and disaster management plans with their 3-year financial plan, however colleges are still expected to update these documents on an ongoing basis.

4.16 Where a college is either 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

4.17 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.

Good practice self-assessment checklist

4.18 In Circular 05/03, the former LSC published a self-assessment checklist to assist colleges in reviewing their risk and disaster management plans. This checklist is repeated at paragraphs 4.19 to 4.24 below for ease of reference. It is not considered that all elements of the checklist would apply to all colleges. Colleges should select those items considered to be important to them and establish an appropriate review process.

4.19 ***"Senior management supports and promotes risk management."***

- A formal risk policy has been developed and is documented, endorsed by the corporation and the Principal, is readily available to all staff and is subject to regular review.
- Senior management has a good understanding of the key risks facing the organisation and their likely implications for service delivery to the public and the achievement of programme outcomes.
- The college has systems in place to help ensure that key risks are identified and kept up to date so that review management is routinely in a position to be aware of the key risks.
- The college has contingency arrangements in all offices to maintain standards of service to the public and the delivery of programmes in the event that risks result in adverse circumstances.

4.20 ***"The college's culture supports well thought through risk taking and innovation."***

- There is an explicit policy to encourage well managed risk taking where it has the potential to realise sustainable improvements in service delivery and value for money, and this policy is actively communicated to all staff.
- The college has provided clear guidelines to all staff when developing its working culture through its policy guidelines on "Ways of Working".
- All senior management and risk champions are encouraged to look at risks in failing to follow up opportunities as well as threats.
- The defined ways of working clearly state that the college wishes to avoid a blame culture.
- Staff are encouraged to take responsibility for risks when they are best placed to do so rather than transferring the risks to other organisations. Very few of the risks are transferred.
- Staff are encouraged to report bad news to senior management as well as good with a view to resolving problems rather than allocating blame.
- Staff are encouraged to challenge existing practices, to identify new ways of doing things and to be innovative.

4.21 ***"Risk management policies and the benefits of effective risk management are clearly communicated to all staff."***

- There are clear statements that set out the college's risk policies and its approach to risk taking and innovation, and all staff are encouraged to read them.

- Risk champions have been identified in all college offices and directorates and have received comprehensive training on risk management. There is a standard risk management system on which all risks are recorded in a prescribed format, thus ensuring consistency in the definition of risks and how they should be managed. There is detailed guidance on how the risk management process operates.
- Risk management, policies, guidelines, definitions and recording are clearly communicated to all staff.
- Appropriate staff have been appointed with clearly assigned responsibility for assessing, reporting and managing identified risks and their responsibilities are regularly reviewed.
- Staff have received appropriate guidance and training on the typical risks which the organisation faces and the action to take in managing these risks.

4.22 ***"Risk management is embedded in management processes."***

- There is an established process for identifying risk, assessing the risk and reporting the risk which is understood by staff.
- The internal audit reviews, the risk management process and benchmarking will be a key feature of our risk management continuous improvement process. The college is aiming to be a benchmark for risk management in the FE sector.
- Management has sought advice from internal and external audit, as well as partner agencies, on good practice in the development, implementation and maintenance of robust risk management processes and systems.
- The college has taken some professional advice to ensure that the most appropriate tools and techniques are used to assess risk and the likelihood of it maturing.
- The college's aim, whenever practicable, is to place a monetary or other numerical value on the risk to emphasise the potential loss or misused opportunities which could occur if risks are not managed. Where no monetary or numerical value is used the level of impact will be stated.
- Impact on learners and other customers is monitored as part of the risk management process to ensure that the provision of services remains appropriate, sufficient and cost effective.
- Risk management is ongoing and integrated with other procedures so that staff accept it as a standard requirement of good management and not a one-off or annual activity. Risk assessment is built into all papers submitted to the college senior management board, programme boards and corporation. Consideration is being given for inclusion of risk management as part of the college's "Ways of Working".

4.23 ***"Management of risks is closely linked to the achievement of objectives."***

- All key targets and objectives are considered during the risk management process to help ensure that they are achieved, that the level of risk is identified and that appropriate actions are planned.
- The potential risks for key stakeholders are taken account of in the development of the risk management register.

- Each risk is assigned to a lead person; that lead person is responsible for ensuring an action plan is developed to address the key causal factors and is also responsible for monitoring progress so that senior management can be alerted to problems such as quality of service and increase in customer demand not being met.
- There is a business continuity plan in place in every college office and directorate to deal with contingencies should problems arise so that key targets, objectives or programme outcomes are not affected.
- There is a communication strategy in place so that if risks mature those most affected by the potential adverse consequences fully understand and have confidence in the remedial action that the college may need to take.

4.24 ***"Risks associated with other organisations are assessed and managed."***

- A list of third party organisations has been identified as having or likely to have an influence over the success of college programmes and services.
- Consideration will be given to the need for a consistent and common approach to managing risks that cut across partner boundaries.
- Risks associated with joint working will be jointly identified and assessed and those involved in the joint working or partnership clearly assigned and understood.
- The college will be proactive in ensuring risk management arrangements are in place on joint working projects.
- The college will review the extent to which risks for joint projects can successfully be transferred to other organisations, both public and private.
- The college will proactively ensure that reliable and regular information to monitor the risk management performance of all the organisations involved in a joined-up programme and partnership is available for effective risk management.
- The college will ensure that there are contingency arrangements to minimise the adverse effects on public service delivery of one or more parties failing to deliver.

Suggested Checklist for Commentary

4.25 The suggested checklist below is for colleges' own use and does not need to be returned to the appropriate funding body.

Financial objectives

4.26 Has the college set detailed financial objectives? Are they set out in the commentary?

4.27 Has an assessment been included in the commentary of the extent to which they have been achieved?

Strategic and/or development plan

4.28 Is there a clear link between the projected learner numbers included in the college's strategic plan and the movement in funding and standard learner numbers ('SLN') recorded on Schedule 1b of the financial plan? If not, please explain any changes in the commentary.

4.29 Do the staff costs included in Schedule 1d of the plan reflect future staffing plans?

4.30 Does the financial plan reflect the financial implications of the college's property strategy?

4.31 Does the financial plan demonstrate that the college's financial objectives are being achieved? If they are not, is this addressed in the commentary?

Approval

4.32 Has the governing body approved the plan?

Self-assessment of financial health

4.33 Has the governing body made regular assessments of the college's financial health?

4.34 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?

4.35 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?

4.36 Does the commentary explain the college's rationale for its financial health self-assessment?

4.37 Does the commentary give reasons for any moderation from the automated health group assessment, if applicable, and are the grounds for moderation appropriate?

Supplementary information

Principal's Statement

4.38 Has the financial health self-assessment been completed?

4.39 Has the budget statement been completed?

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

4.41 Has the efficiency savings statement been completed?

4.42 Has the College agreed to publication of the data?

4.43 Has the Principal signed the form?

Table 1

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

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

Tables 2 and 3

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

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

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

Schedules 1a, 1b and 1c

4.49 Does the commentary include the sources of grant income?

4.50 Does the commentary include the nature of any repayment of European Social Fund (ESF) funding?

4.51 Does the commentary include the sources of income from franchising provision?

4.52 Does the commentary include the main income-generating activities?

Schedules 1d and 1e

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

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

Schedule 1f

4.55 Has the reconciliation of movements between years been completed?

Schedule 4a and 4b

4.56 Have the capital uplift (where appropriate) and self-assessment boxes been completed, including the narrative box (where appropriate)?

Schedule 5

4.57 Has the sensitivity analysis been completed?

Schedule 6: Key assumptions

4.58 Does schedule 6 or 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 etc
- 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?

4.59 Does schedule 6 include the general level of pay awards assumed in the plan?

4.60 Does schedule 6 state any variation in the general inflation rate for specific items of income or expenditure?

4.61 Does schedule 6 state the interest rates assumed?

4.62 Does schedule 6 state the assumptions underlying income from all sources and all expenditure cuts?

Planned maintenance

4.63 Does the commentary give details of the college’s planned maintenance programme, if applicable?

Risk management

4.64 Has the college’s risk management plan been approved by the governing body?

4.65 Does the college’s risk management plan cover disaster planning, risk analysis, sensitivity analysis and contingency planning?

4.66 Does the risk management plan comply with the Turnbull Report?

Other information

4.67 Does the Principal’s Statement give the name and telephone number of the contact person for all enquiries?

Financial Objectives Adopted by Colleges

4.68 Colleges should set clear financial objectives that support the achievement of their strategic objectives. Whatever objectives are set, progress against them should be monitored and reported on a periodic basis through a series of performance indicators. Examples of such indicators are set out in paragraph 4.69 below. These should be tailored to the college's circumstances/needs.

4.69 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 XXXX and YY per cent by 31 July XXXX
  - ii we will maintain cash days of XX or more at all times
  - iii we will achieve break-even by 31 July XXXX and have an operating surplus by 31 July XXXX
  - iv we will generate a cash inflow from operating activities by 31 July XXXX
  - v we will reduce borrowing to XX per cent of general reserves by 31 July XXXX, and YY per cent by 31 July XXXX
  - vi we will have a current ratio of more than XX:1 by 31 July XXXX)
- b improving financial management by producing management accounts on a monthly basis, 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 XXXX
- d introducing post-implementation review procedures in order to assess the success or otherwise of major investments (building, information technology, staffing, marketing and so on) exceeding £XX,XXX by 31 July XXXX)
- e maintaining the confidence of funding bodies, suppliers and professional advisors 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
  - 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; and
- g improving the stock of college accommodation and equipment by:
  - i. generating sufficient funds to ensure that the college's specified programme of planned maintenance can be undertaken

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 Trend Analysis

The following tables E1 to E11 summarise statistical data from college accounts (extracted from the Finance Record) between 2006/07 and 2009/10 which colleges may find helpful when reviewing their plans.

Table E1: Total income

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Agriculture & horticulture	202.2	245.8	252.8	274.0
Art, design & perf. arts	30.1	32.7	35.1	36.3
Designated colleges	71.1	69.0	74.9	80.2
General FE colleges	4,707.5	5,082.2	5,281.2	5,786.7
Sixth form colleges	762.9	814.6	815.1	838.1
Tertiary colleges	883.8	808.5	1,003.9	751.7
Total	**6,657.6**	**7,052.8**	**7,463.0**	**7,767.1**
Year on year increase %	3.8%	5.9%	5.8%	4.1%
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E2: Total LSC and successor bodies' recurrent income

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Agriculture & horticulture	100.9	123.3	126.1	132.0
Art, design & perf. arts	12.9	13.2	13.3	13.5
Designated colleges	42.9	38.9	43.9	44.4
General FE colleges	3,088.1	3,228.5	3,201.7	3,593.3
Sixth form colleges	672.5	715.6	724.2	749.1
Tertiary colleges	591.2	571.7	681,0	509.0
Total	**4,508.5**	**4,691.2**	**4,790.2**	**5,041.4**
Year on year increase %	2.7%	4.1%	2.1%	5.2%
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E3: Operating surplus/(deficit) after taxation

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Agriculture & horticulture	2.7	5.0	1.7	9.9
Art, design & perf. arts	0.9	0.7	1.4	1.5
Designated colleges	0.8	0.8	(0.1)	3.8
General FE colleges	28.3	(15.4)	(201.5)	45.8
Sixth form colleges	2.4	(12.7)	3.4	26.8
Tertiary colleges	9.3	(4.0)	(15.2)	15.8
Total	**44.4**	**(25.5)**	**(210.3)**	**103.8**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E4: Operating surplus/(deficit) as a percentage of total income

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	1.4%	2.0%	0.7%	3.6%
Art, design & perf. arts	2.9%	2.2%	3.9%	4.2%
Designated colleges	1.1%	1.2%	(0.1%)	4.7%
General FE colleges	0.6%	(0.3%)	(3.8%)	0.8%
Sixth form colleges	0.3%	(1.5%)	0.4%	3.2%
Tertiary colleges	1.1%	(0.5%)	(1.5%)	2.1%
Average college	**0.7%**	**0.4%**	**(2.8%)**	**1.3%**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10
Note: operating surplus/(deficit) INCLUDES the impact of FRS 17 adjustments, accelerated depreciation / grant releases, property strategy costs / grant support but EXCLUDES surpluses/(deficits) on asset disposals

Table E5: Staffing costs as a percentage of total income (excluding contract tuition)

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	54.7%	52.6%	52.9%	51.5%
Art, design & perf. arts	57.9%	57.6%	56.5%	57.7%
Designated colleges	64.9%	64.9%	68.6%	65.1%
General FE colleges	63.4%	62.6%	64.1%	63.5%
Sixth form colleges	70.0%	68.6%	70.3%	70.2%
Tertiary colleges	64.2%	64.2%	65.5%	64.5%
Average college	**62.5%**	**63.1%**	**64.6%**	**63.9%**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E6: Current ratio

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	1.5	1.1	1.0	1.1
Art, design & perf. arts	1.7	2.2	2.4	2.3
Designated colleges	2.4	2.0	1.9	2.8
General FE colleges	1.6	1.4	1.2	1.5
Sixth form colleges	2.1	1.5	1.7	2.0
Tertiary colleges	1.5	1.5	1.3	1.5
Average college	**1.8**	**1.4**	**1.3**	**1.5**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E7: Total cash less overdrafts

	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m
Agriculture & horticulture	16.6	20.4	20.5	26.6
Art, design & perf. arts	5.7	7.2	9.1	10.6
Designated colleges	18.5	18.0	14.7	18.2
General FE colleges	683.4	796.2	632.4	870.2
Sixth form colleges	118.1	120.8	123.2	162.7
Tertiary colleges	126.5	123.1	125.8	117.1
Total	**968.8**	**1,085.7**	**925.7**	**1,205.4**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E8: Cash days in hand

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	37.3	30.7	30.2	36.1
Art, design & perf. arts	77.4	82.2	97.1	109.3
Designated colleges	120.2	96.0	72.3	83.7
General FE colleges	57.6	58.3	44.4	55.9
Sixth form colleges	58.7	55.3	56.2	72.3
Tertiary colleges	49.0	56.6	46.5	57.9
Average college	**66.7**	**57.3**	**46.0**	**57.7**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E9: Cash generated from operating activities as a percentage of income

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	7%	9%	7%	9%
Art, design & perf. arts	7%	7%	10%	10%
Designated colleges	3%	4%	-2%	4%
General FE colleges	8%	6%	3%	6%
Sixth form colleges	6%	8%	5%	9%
Tertiary colleges	7%	7%	6%	8%
Average college	**7%**	**6%**	**3%**	**7%**
Sample size	372	361	356	9%

Source: College Accounts 2006/07 to 2009/10

Table E10: Total borrowing as a percentage of total income

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	22.4%	24.5%	29.4%	28.7%
Art, design & perf. arts	11.6%	12.0%	10.4%	10.6%
Designated colleges	5.3%	5.9%	2.6%	4.4%
General FE colleges	12.9%	13.5%	17.3%	20.1%
Sixth form colleges	10.5%	14.3%	18.7%	21.6%
Tertiary colleges	15.7%	18.0%	19.6%	20.5%
Average college	**13.1%**	**14.4%**	18.0%	**20.4%**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

Table E11: Total borrowing as a percentage of reserves and debt

	2006/07	2007/08	2008/09	2009/10
Agriculture & horticulture	32.5%	35.6%	40.1%	38.6%
Art, design & perf. arts	15.5%	20.4%	17.9%	16.6%
Designated colleges	4.0%	10.5%	5.0%	6.3%
General FE colleges	24.6%	24.6%	31.0%	33.1%
Sixth form colleges	19.0%	25.9%	29.9%	31.6%
Tertiary colleges	35.3%	34.2%	36.6%	34.4%
Average college	**21.8%**	**25.2%**	**31.7%**	**32.9%**
Sample size	372	361	356	351

Source: College Accounts 2006/07 to 2009/10

6 Guidance on completing the Financial Plan Template

Financial plan template

6.1 Following discussions with representatives of the CFDG, the LSC made significant changes to the financial plan template in 2006 including the introduction of a 10-year financial plan, five new capital schedules and a help facility within the template. Whilst no significant changes have been made to either the structure or content of the template in the intervening years, 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.

6.2 This financial plan template must be completed for the following:

- capital project applications
- reorganisations, such as college mergers
- recovery plans
- borrowing consent requests
- the financial consequences of the college's strategic and development plan (submission date 31 July each year).

6.3 If colleges need to complete less than 10 years in the financial plan, then they should hide the respective columns in each worksheet. Where a college cannot hide a column, then it should amend the print area so that only the period that is being reported is printed.

6.4 **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, no additional worksheets should be added into formal plan submissions. The appropriate funding body will be checking plan submissions and plans which do not comply in this regard will be rejected.**

Format

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

6.6 The second form (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.

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

6.8 The next four forms, known as tables, represent a summary of the financial position of the college, and contain three primary statements and ratio analysis, i.e.:

- income and expenditure account (Table 1)
- balance sheet (Table 2)

- cash flow (Table 3)
- ratio analysis (Table 4).

6.9 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:

- Table 1 income and expenditure account are Schedules 1a to 1f
- Table 2 balance sheet are Schedules 2a to 2g
- Table 3 cash flow is Schedule 3.

6.10 Schedules 4a and 4b show the indicative financial health calculation (new and old scoring methods).

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

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

6.13 Schedules 7a, 7b & 7c should only be completed when a college is submitting a capital project application.

6.14 Schedule 8 sets out the requirements for the reporting of efficiency data.

6.15 The cells containing formulae deriving data from other tables and schedules have a light blue background. This is to make the plan more user-friendly where it is being completed by the partially sighted.

6.16 On virtually every form an optional narrative box is included. This is to enable colleges to write specific notes which relate to the composition of the figures in the form. Whilst there is no requirement for this box to be completed or to be part of the submission, if colleges wish to use the narrative box to explain any variances, assumptions or risks then they may use this as part of their submission, although we recommend that this information is also included in the commentary to the plan.

6.17 The template is called “Financial Plan.xls”.

Form layout

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

6.19 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.

6.20 The first year of the financial plan must be the forecast out-turn for the current year. For example, a three-year financial plan covering the period 2011 to 2014 must have 2011 as its first year in the template.

Changes from 2010–2013 financial plan

6.21 As already highlighted, there are no significant changes from the financial plan template published in Financial Planning Handbook 2010 to 2013. The main changes from the 2010–2013 financial plan are summarised below:

Main changes from the 2010–2013 financial plan

Table/schedule	Summary of change(s)
Cover sheet	Health score under new mechanism replacing previous one
Table 1: Income and Expenditure Account	Removal of discrete capital lines (rows 13a to 13d). Replaced with single capital adjustments line at bottom of schedule
Sch 1a: Analysis of income **Sch 1b: SFA and YPLA funding** **Sch 1c: Analysis of other funding body income**	Updating and reworking to primarily reflect the amalgamation of Adult and Employer funding streams and revised fee income categorisations
Sch 1e: Non-pay	Inclusion of exam costs line
Sch 4a/b: Financial Health	Inclusion of financial health schedules under both new and previous mechanism
Sch 8: Efficiency savings	Only actual data to 31 March 2011 now required
Throughout template	Various other amendments to facilitate calculation of health score under new mechanism

Efficiency Measurement Data

6.22 The central government three year comprehensive spending review ('CSR') in 2007 (covering the three years to ***March 2011***) set efficiency targets for all government-funded bodies, including further education colleges. These efficiency targets originally arose from a review by Sir Peter Gershon, and are therefore commonly known as 'Gershon targets' or 'Gershon efficiencies'.

6.23 The target for Procurement is to achieve £40m of sustainable efficiency gains (i.e. savings which occur year after year rather than on a one-off basis). The submission should reflect efficiencies resulting from activities undertaken on or after 1st April 2008.

6.24 The submission requirement for 2011 calls for data to be captured for the year ending **31 March** rather than **31 July**, in order to align with DBIS and Treasury reporting requirements.

6.25 The requirements for the 2011 Financial Planning return are to report the following:

- Procurement - Cashable Efficiency gains achieved through effective procurement e.g. cost/price reduction on goods purchased.
- Procurement - Non Cashable Efficiency gains achieved for example from procurement process improvements inc. Visa cards, e-procurement, use of consortia frameworks etc.
- Non - teaching cost (NTC) / Shared Services (SS) efficiencies - Cashable savings arising from NTC and SS initiatives.

6.26 The above information is required only for the year ending 31 March 2011 (**actual savings achieved**).

6.27 Annex 1 to this chapter sets out guidance for colleges in completing the return.

Notes and Guidance on Completing the Financial Plan Template

Introduction

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

Financial plan

6.29 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 the college. They also consider whether it agrees with the college's self-assessment of its financial health.

6.30 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.

6.31 It is important that a college's financial plan presents a realistic view of its position so that the appropriate funding body gets a realistic view of the financial health of the sector. Aggregate data are also used to respond to ad hoc queries from colleges and government.

Detailed guidance on completing the plan

The remaining part of this section of this guidance note provides examples for colleges to follow when completing the plan.

Example 1 – capital grant

6.32 **Please note that the primary purpose of examples 1 and 2 (and indeed the remaining examples 3 to 7) is to illustrate the accounting and financial plan entries in each case. In relation to capital projects, the intervention rate may vary significantly from one project to another.**

6.33 A college secures capital grant support at 35% of the total project cost of £1 million. This capital support will be paid over three years on support of evidence from the college that the expenditure has been made. The payment profile would be as follows.

Year		%	£
1	2011/12	10.0	100,000
2	2012/13	12.5	125,000
3	2013/14	12.5	125,000
Total		**35.0**	**350,000**

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

Year		Project Costs		Capital Grant
		£000	%	£000
1	2011/12	800	35.0	280
2	2012/13	200	35.0	70
Total			**35.0**	**350**

6.35 The transactions should be recorded as follows.

Schedule 2e: Capital grants

	2011/12 £000	2012/13 £000	2013/14 £000
Line 1b, grants due in respect of capital expenditure in the year	280	70	–
Line 1e, deferred grant balance at year end (non-input line)	280	350	350
Line 1g, grants claimed and spent but not received – debtor	180	125	-
Line 1h, grants expended in prior year received in current year (non-input line)	–	180	125
Line 1i, Grants received during the year (non-input line)	100	125	125

Schedule 2a: Tangible fixed assets

	2011/12 £000	2012/13 £000	2013/14 £000
Line 1c, additions	800	200	–

Schedule 2c: Summary of debtors

	2011/12 £000	2012/13 £000	2013/14 £000
Line 2, Capital grants (non-input line)	180	125	–
Line 10, due after one year	55	–	–
Line 11, due within one year (non-input line)	125	125	–

6.36 The following entries are automatically input via the schedules.

Table 2: Balance sheet

The majority of the entries on Table 2 and Table 3 are calculated automatically via the schedules.

	2011/12 £000	2012/13 £000	2013/14 £000
Line 1a, land and buildings	800	1,000	1,000
Line 2, Debtors: amounts falling due after one year	55	–	–
Line 3b, debtors	125	125	–
Line 3cii, cash	(700)	(775)	(650)
Line 11, net assets incl. pension asset/(liability)	280	350	350
Line 12, deferred capital grants	280	350	350

Table 3: Cash flow statement

	2011/12 £000	2012/13 £000	2013/14 £000
Line 4a, payments to acquire fixed assets	(800)	(200)	–
Line 4c, deferred capital grants rec'd	100	125	125
Line 4d, net cash inflow/(outflow) from capital expenditure	(700)	(75)	125
Line 7, increase/(decrease) in cash	(700)	(75)	125
Line 8e, change in net funds/(debt)	(700)	(75)	125
Line 8f, net funds/(debt) at beginning of year	0	(700)	(775)
Line 8g, net funds/(debt) at end of year	(700)	(775)	(650)

Example 2 – fixed asset creditors

6.37 At 25 July 2011 a college purchases from ABC Limited 100 computers at a cost of £1.0 million. The college's accounting policy is to capitalise in its balance sheet any computer acquired over the amount of £750. At the financial year end (31 July 2011), the college still owes ABC Limited and so will show the amount as a creditor in its accounts. The entries in the financial plan will be as follows.

Schedule 2a: Tangible fixed assets

	2011/12 £000	2012/13 £000	2013/14 £000
Line 1j, additions	1,000	–	–

Schedule 2d: Creditors due within and after one year

	2011/12 £000	2012/13 £000	2013/14 £000
Line 6f, fixed asset creditors	1,000	–	–

6.38 The following entries are automatically input via the schedules.

Table 2: Balance sheet.

The majority of the entries on Table 2 and Table 3 are calculated automatically via the schedules.

	2011/12 £000	2012/13 £000	2013/14 £000
Line 1b, equipment	1,000	1,000	1,000
Line 3cii, other short-term investments and cash	–	(1,000)	(1,000)
Line 4, creditors – amount falling due within one year	1,000	–	–

Table 3: Cash flow statement

	2011/12 £000	2012/13 £000	2013/14 £000
Line 4a, payments to acquire fixed assets	–	(1,000)	–
Line 7, increase/(decrease) in cash	–	(1,000)	–
Line 8g, net funds/(debt) at end of year	–	(1,000)	–

Example 3 – disposal of fixed assets

6.39 During 2011/12, a college sells inherited land and buildings for £50,000. At 1 April 1993 these assets were valued at £45,000 and at the date of disposal were depreciated by £5,000. During 2012/13, equipment financed by capital grant is scrapped (nil sales proceeds). The equipment had initially cost £10,000 and had been depreciated by £7,000. The following entries would be required.

Schedule 2a: Tangible fixed assets

	Year ended 31 July 2012 £000	Year ended 31 July 2013 £000
Line 1b, balance bfwd (non input line)	45	-
Line 1f, disposals	(45)	-
Line 1i, balance bfwd (non input line)	-	10
Line 1l, disposals	–	(10)
Line 2a, balance bfwd (non input line)	5	-
Line 2c, eliminated in respect of disposals	(5)	–
Line 2f, balance bfwd (non input line)	-	7
Line 2h, eliminated in respect of disposals	–	(7)
Line 4a, sale proceeds	50	-

Schedule 2e: Capital grants

	2011/12 £000	2012/13 £000
Line 1a, deferred grant balance bfwd (non input line)	3	3
Line 1d, release of grants on asset disposals	–	3

Schedule 2g: Revaluation reserve

	2011/12 £000	2012/13 £000
Line 3a, net book value of disposals of inherited or revalued assets	(40)	–

6.40 The following entries are automatically input via the schedules.

Table 1: Income and expenditure account

	2010/11 £000	2011/12 £000	2012/13 £000
Line 1, Total Funding Grants	-	-	3
Line 13, profit/(loss) on disposal of fixed assets	-	10	(3)
Line 14, surplus/(deficit) after tax	-	10	-
Line 17, historical cost surplus/(deficit)	-	50	-

Table 2: Balance sheet

	2010/11 £000	2011/12 £000	2012/13 £000
Line 1a, land and buildings NBV	40	-	-
Line 1b, equipment NBV	3	3	-
Line 3cii, cash	-	50	50
Line 11, net assets	**43**	**53**	**50**
Line 12, deferred capital grants	3	3	-
Line 13, revaluation reserve	40	-	-
Line 16, income and expenditure reserve	-	50	50
Line 20, total funds	**43**	**53**	**50**

Table 3: Cash flow statement

	2010/11 £000	2011/12 £000	2012/13 £000
Line 4b, receipts from sale of fixed assets	-	50	-

Example 4 – FRS 17

6.41 Casterbridge College's financial statements for the year ending 31 July 2011 show that the movement in FRS 17 during the year was as follows.

		Year ended 31 July 2011 £000
Movement in FRS 17 during year		
Surplus/(deficit) in scheme at 1 August		1,440
Movement in year:		
	Current employer service charge	(388)
	Employer contributions	178
	Past service costs	(137)
	Expected return on pension assets	917
	Interest on pension liabilities	(664)
	Actuarial gain or loss	(2,806)
Surplus/(deficit) in scheme at 31 July		**(1,460)**

6.42 The entries in Schedule 2f of the financial plan would be as follows.

	Year ended 31 July 2011 £000
3a Surplus/(deficit) in scheme at 1 August (non input line)	1,440
3b Current service charge	(388)
3c Past service costs	(137)
3d Curtailments and settlements	–
3e Expected return on pension assets	917
3f Interest on pension liabilities	(664)
3g Employer contributions	178
3h Actuarial gain or loss	(2,806)
3i Surplus/(deficit) in scheme at 31 July (non input line)	**(1,460)**

6.43 The following entries are automatically input via the schedules.

Table 1: Income and expenditure account.

	Year ended 31 Jul 2011 £000
Line 5, endowment and investment income	253
Line 7, staff costs	347
Line 10, interest payable	–

Line 5, endowment and investment income is derived from line 5c of Schedule 1a.
Line 7, staff costs is derived from lines 14a and 14b of Schedule 1d.
Line 10, interest payable is derived from line 14b of Schedule 1e.

Table 2: Balance sheet.

	Year ended 31 July 2011 £000
Line 10, net pension asset/(liability)	(1,460)
Line 17, pension reserve	(1,460)

Line 10 and line 17 of Table 2 are derived from line 14 of Schedule 2g.

Schedule 1a: Analysis of income

	Year ended 31 July 2011 £000
Line 5c, pension finance income	253

Line 5c, pension finance income is the sum of lines 3e and 3f of Schedule 2f, if the expected return on pension assets (line 3e) exceeds the interest on pension liabilities (line 3f).

Schedule 1d: Analysis of staff costs

	Year ended 31 July 2011 £000
Line 12a, total staff costs	525
Line 12b, add back of LGPS employer contributions	(178)

Line 12a, total staff costs is the sum of lines 3b, 3c and 3d of Schedule 2f.

Schedule 1e: Analysis of non pay expenditure

	Year ended 31 Jul 2011 £000
Line 12b, pension finance costs	–

Line 12b, pension finance costs is the sum of lines 3e and 3f of Schedule 2f, if the interest on pension liabilities (line 3f) exceeds the expected return on pension assets (line 3e).

Schedule 2g: Reserves

	Year ended 31 Jul 2011 £000
Line 9, historical cost surplus/(deficit)	(94)
Line 12, FRS 17 actuarial gain/(loss)	(2,806)
Line 15, FRS 17 surplus/(deficit) in scheme at 31 July	(1,460)

Line 12, FRS 17 actuarial gain/(loss) is derived from line 3h of Schedule 2f.
Line 15, FRS 17 surplus/(deficit) in scheme at 31 July is derived from line 3i of Schedule 2f.

Schedule 3: Cash flow reconciliation

	Year ended 31 July 2011 £000
Line 7, FRS 17 adjustments	94

Line 7, FRS 17 adjustments is the sum of lines 14a and 14b of Schedule 1d, line 14b of Schedule 1e and line 5c of Schedule 1a.

Example 5 – Enhanced pension provisions

6.44 A college has completed the enhanced pension tables for the year ending 31 July 2011 as follows:

		£000
Provision at start of year	31/07/2010	1,938
Provision required at end of year	31/07/2011	2,048
Retirement cost for all retirements in year		50
Pension payments in year		107
Interest on provision at start of year		118
Actuarial gains (losses) over year		(49)

6.45 The entries in Schedule 2f of the financial plan would be as follows.

	Year ended 31 July 2011 £000
2a Balance brought forward	1,938
2b Provision made in period (to Schedule 1d)	50
2c Interest on provision in period (to Schedule 1e)	118
2d Payments made in year (to Table 2 line 3cii)	107
2e Actuarial gain or (loss) (to Schedule 2g)	(49)
2f Balance carried forward (non entry line)	**2,048**

6.46 The following entries are automatically input via the schedules.

Table 1: Income and expenditure account.

	Year ended 31 July 2011 £000
Line 7, staff costs	50
Line 10, interest payable	118

Line 7, staff costs is derived from lines 13 of Schedule 1d.
Line 10, interest payable is derived from line 12b of Schedule 1e.

Table 2: Balance sheet

	Year ended 31 July 2011 £000
Line 3cii, other short term investments and cash	(107)
Line 8, provisions for liabilities and charges	2,048
Line 9, net assets excluding pension asset/(liability)	(2,155)
Line 16, I&E account excluding pension reserve	(2,155)

Line 3cii represents the payments made in the year. Line 8 is derived from line 2f of Schedule 2f.

Schedule 2g: Reserves

	Year ended 31 July 2011 £000
Line 8, balance b/f on income and expenditure account including FRS 17	(1,938)
Line 9, historic cost surplus/(deficit)	(168)
Line 13, enhanced pensions – actuarial gain/(loss)	(49)
Line 14, balance c/f on income and expenditure account including FRS 17	(2,155)
Line 16, balance c/f on income and expenditure account excluding FRS 17	(2,155)

Line 9, historic cost surplus/(deficit) is derived from line 17 of Table 1.
Line 13, enhanced pensions – actuarial gain/(loss) is derived from line 2e of Schedule 2f.

Schedule 3: Cash flow reconciliation

	Year ended 31 July 2011 £000
Line 1, surplus/(deficit) including assets transactions before tax	(168)
Line 8, enhanced pension adjustment	(49)
Line 14, increase/(decrease) in provisions	110
Line 16, net cash inflow/(outflow) from operating activities	(107)

Line 8, enhanced pension adjustment is derived from line 2e of Schedule 2f.

Example 6 – finance leases

6.47 A college has continued obligations under finance leases and hire purchase agreements of £10,000 in 2011/12 and £12,000 in 2012/13, 2013/14 and 2014/15. Repayments of capital are £9,000 during 2011/12 and £10,000 during 2012/13, 2013/14 and 2014/15.

6.48 In addition, the college has a new three-year finance lease of £54,000, forecast to begin in 2011/12. The college has obligations of £20,000 in 2012/13, 2013/14 and 2014/15 in this respect. Repayments of capital are £18,000 in 2012/13 to 2014/15 inclusive.

6.49 The example requires manual entries in Schedule 2d creditors, lines 32, 33 and 41; and Schedule 2a tangible fixed assets, line 1j. The example also affects Table 3 cash flow (in the financing and reconciliation sections) and Table 2 balance sheet (in the fixed asset section) and line 12a of Schedule 1e. The abridged schedules below show the entries described in the example above.

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

Completion of Schedule 2d creditors

	Year ended 31 July 2012 £000	Year ended 31 July 2013 £000	Year ended 31 July 2014 £000	Year ended 31 July 2015 £000
4 Finance leases a. Finance lease balance brought forward	39	84	56	28
b. New finance leases	54	–	–	–
c. Capital element of finance lease payments	9	28	28	28
d. Total finance lease obligations	84	56	28	-
e. Lease payments falling due within 1 year	28	28	28	-
f. Lease payments falling due after 1 year	56	28	-	-
g. Capital element	9	28	28	28
h. Interest element	1	4	4	4
i. Total finance lease payment	10	32	32	32

Completion of Schedule 2a tangible fixed assets

	Year ended 31 July 2011 £000	Year ended 31 July 2012 £000	Year ended 31 July 2013 £000	Year ended 31 July 2014 £000
1j. Additions	54	–	–	–

Example 7 – revaluation reserve

6.51 An example is set out below of how to account for a revaluation of assets and subsequent disposal. A college holds the following assets that it revalues at 31 July 2012.

	Cost of assets at 31 July 2011 £000	Total depreciation to 31 July 2011 £000	Asset NBV at 31 July 2011 £000	Depreciation charge in year to 31 July 2012 £000	Revaluation at 31 July 2012 £000	Amount of revaluation £000
Inherited land and buildings	600	200	400	20	500	120
Land and buildings financed by capital grant	300	100	200	10	250	60
Other land and buildings	400	200	200	20	250	70
Inherited equipment	100	50	50	10	30	(10)
Equipment financed by capital grant	500	300	200	10	150	(40)
Other equipment	700	100	600	100	500	-
Total	2,600	950	1,650	170	1,680	200

6.52 The revaluation will be recorded as follows:

Journals 1, 2 and 3: Opening balances

			Financial Plan	£000
1	Inherited land and buildings	Cost	Schedule 2a line 1b	600
		Cumulative depreciation	Schedule 2a line 2a	200
	Inherited equipment	Cost	Schedule 2a line 1i	100
		Cumulative depreciation	Schedule 2a line 2f	50
	Revaluation reserve		Table 2 line 13	450
2	Land and buildings financed by capital grant	Cost	Schedule 2a line 1b	300
		Cumulative depreciation	Schedule 2a line 2a	100
	Equipment financed by capital grant	Cost	Schedule 2a line 1i	500
		Cumulative depreciation	Schedule 2a line 2f	300
	Deferred capital grant		Schedule 2e line 1a	400
3	Other land and buildings	Cost	Schedule 2a line 1b	400
		Cumulative depreciation	Schedule 2a line 2a	200
	Other equipment	Cost	Schedule 2a line 1i	700
		Cumulative depreciation	Schedule 2a line 2f	100
	Expenditure	Bank	Table 2 line 3cii (non input)	800

Journal 4: Depreciation charge for 2011/12

		Financial Plan	£000
4	Depreciation (I&E account)	Schedule 1e line 11 (non input)	170
	Inherited land and buildings	Schedule 2a line 2b	20
	Inherited equipment	Schedule 2a line 2g	10
	Land and buildings financed by capital grant	Schedule 2a line 2b	10
	Equipment financed by capital grant	Schedule 2a line 2g	10
	Other land and buildings	Schedule 2a line 2b	20
	Other equipment	Schedule 2a line 2g	100

Journal 5: Matching of capital grant against depreciation charge for 2011/12

		Financial Plan	£000
5	Deferred capital grant	Schedule 2e line 1c	20
	Release of deferred capital grant (I&E account)	Schedule 1a line 1av (non input)	20

Journal 6: Reversal of depreciation on inherited fixed assets to obtain historical cost for 2011/12

		Financial Plan	£000
6	Revaluation reserve	Schedule 2g line 3b	(30)
	Transfer to/(from) revaluation reserve (I&E account)	Table 1 line 16 (non input)	30

Journal 7: Revaluation at 31 July 2012 resulting in the impairment of some fixed assets

		Financial Plan	£000
7	Depreciation (I&E account)	Schedule 1e line 11 (non input)	50
	Inherited equipment	Schedule 2a line 2g	10
	Equipment financed by capital grant	Schedule 2a line 2g	40

Journal 8: Reversal of depreciation on inherited fixed assets to obtain historical cost for 2011/12

		Financial Plan	£000
8	Revaluation reserve	Schedule 2g line 3b	(10)
	Transfer to/(from) revaluation reserve (I&E account)	Table 1 line 16 (non input)	10

Journal 9: Matching of capital grant against impairment charge

		Financial Plan	£000
9	Deferred capital grant – equipment	Schedule 2e line 1c	40
	Release of deferred capital grant (I&E account)	Schedule 1a line 1av (non input)	40

Journal 10: Revaluation of fixed assets on 31 July 2012

		Financial Plan	£000
10	Inherited land and buildings	Schedule 2a line 1d	120
	Land and buildings financed by capital grant	Schedule 2a line 1d	60
	Other land and buildings	Schedule 2a line 1d	70
	Revaluation reserve	Schedule 2g line 2 (non input)	250

Revaluation college – year ending 31 July 2012

	Accounting entries £000	Journal numbers
Extract from income and expenditure account		
Release of capital grant	60	5 & 9
Depreciation	220	4 & 7
Operating deficit	**160**	
Transfer to/(from) revaluation reserve	40	6 & 8
Historical cost deficit	**120**	
Extracts from balance sheet		
Fixed assets – NBV		
Inherited land and buildings	500	1, 4 & 10
Inherited equipment	30	1, 4 & 7
Land and buildings financed by capital grant	250	2, 4 & 10
Equipment financed by capital grant	150	2, 4 & 7
Other land and buildings	250	3, 4 & 10
Other equipment	500	3 & 4
Total fixed assets	**1,680**	
Bank	(800)	3
Net assets	**880**	
Deferred capital grant	340	2, 5 & 9
Revaluation reserve	660	1, 6, 8 & 10
Income and expenditure account reserve	(120)	
Total funds	**880**	

6.53 The college then disposes of the following assets in 2012/13:

- inherited land and buildings valued at £250,000 (that is 50 per cent of the inherited assets) in 2007 for proceeds of £150,000
- other land and buildings valued at £100,000 (that is 40 per cent of the other land and buildings) in 2007 for £250,000.

6.54 The following entries are needed:

Journal 11: Disposal of inherited land and buildings at 1 August 2012

		Financial plan	**£000**
Inherited land and buildings	Cost	Schedule 2a line 1f	(360)
	Cumulative depreciation	Schedule 2a line 2c	(110)
Disposal proceeds		Schedule 2a line 4a	150
Disposal proceeds	Bank	Table 2 line 3cii (non input)	150
Loss on disposal (I&E account)		Table 1 line 13 (non input)	(100)
Revaluation reserve		Schedule 2g line 3a	(250)
Transfer to/(from) revaluation reserve (I&E account)		Table 1 line 16 (non input)	250

Journal 12: Disposal of other land and buildings at 1 August 2012

		Financial plan	£000
Other land and buildings	Cost	Schedule 2a line 1f	(188)
	Cumulative depreciation	Schedule 2a line 2c	(88)
Disposal proceeds		Schedule 2a line 4a	250
Disposal proceeds	Bank	Table 2 line 3cii (non input)	250
Profit on disposal (I&E account)		Table 1 line 13 (non input)	150
Revaluation reserve		Schedule 2g line 3a	(28)
Transfer to/(from) revaluation reserve (I&E account)		Table 1 line 16 (non input)	28

Revaluation College – as at 1 August 2012

	Accounting entries 000	Journal numbers
Extract from income and expenditure account		
Profit on disposal	50	11 & 12
Surplus after tax	**50**	
Transfer to/(from) revaluation reserve	278	11 & 12
Historical cost surplus	**328**	
Extracts from balance sheet		
Fixed assets – NBV		
Inherited land and buildings	250	11 & 12
Inherited equipment	30	11 & 12
Land and buildings financed by capital grant	250	11 & 12
Equipment financed by capital grant	150	11 & 12
Other land and buildings	150	11 & 12
Other equipment	500	11 & 12
Total fixed assets	**1,330**	
Bank	(400)	11 & 12
Net assets	**930**	
Deferred capital grant	340	11 & 12
Revaluation reserve	382	11 & 12
Income and expenditure account reserve	208	11 & 12
Total funds	**930**	

Miscellaneous

Error messages

6.55 If any of the tables or schedules are incomplete an error message will appear in blue text. **Ignore them until all tables and schedules are completed.** If error messages continue to be displayed after all figures are entered then investigate the cause. **Please ensure all error messages are cleared before the financial plan is returned to the appropriate funding body.**

Negative figures

6.56 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

6.57 A number of issues caused colleges problems completing past years' financial plans. The most common problems were:

- "Ref!" error message – see paragraph 7.4 above

6.58 Error messages will be shown on the individual forms if all schedules are not completed. These messages are 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 no amendments are made the form will close without prompting a save. Amendments made to the table or schedule will be lost if the table or schedule is not saved.

Annex 1

Guidance for College Financial Planning return – Procurement Efficiencies Questions

Q.1 Cashable (or Cash Releasing) Efficiency Gains achieved through effective procurement e.g. cost/price reduction on goods purchased:
Where there is a 'genuine' saving in the purchase price for goods and services.
This measure is self-explanatory, although certain conditions for determining the amount of saving/efficiency achieved may be relatively difficult. The primary test is *"were funds released that could be spent on something else"?*

*Example1: College A negotiated a discount with BT for agreeing to pay by Direct Debit rather than by invoice – this saved them £190 per quarter. This is a genuine saving and would be entered into EMM as a **'price reduction / cashable saving'.***

*Example2: College B aggregated their requirement for PCs across the College, this resulted in a bulk order being placed with their supplier and as a result they could take advantage of a price break saving the College £130,000 that they would have paid with smaller / ad hoc orders for the same number of PCs. This is a genuine saving and would be entered into EMM as a **'price reduction / cashable saving'.***

*College B were also able to negotiate a free 1 year warranty on their PCs, that they would otherwise have paid £500 for as a result of their bulk order. This is a genuine saving and would be entered into EMM as **'added value / cashable saving'.***
N.b If the added value received is for something that the College would not otherwise have purchased (e.g. in the example above they would not have paid for the warranty if not given it free) then this is not a cashable / cash releasing saving – and would be entered into EMM as 'added value / non cashable'.
Full guidance can be found in the EMM User Guide on www.felp.ac.uk >> from the Home page >> Efficiency Measurement Model >> scroll to bottom of the page >> select Chapter 3 of the User Guide.

Q.2 Non Cashable Efficiency Gains achieved e.g. from procurement process improvements including VISA cards, e-procurement, use of consortia frameworks etc:
Benefits from changes to procedures and working practices.
Process re-engineering will have a direct impact on college productivity often improving services to end-users. Efficiencies here are most likely to generate uncashable rather than cashable benefits i.e. staff are released to do other work, however, if the impact was great enough, there may be scope for a reduction in the number of staff.
Examples:

- Setting up call-off agreements/contracts where fragmented purchasing is currently taking place or joining an arrangement managed by another college or consortia.
- Procurement cards - Simplify procedures for low value orders
- Consolidated invoices - Simplify procedures for low value orders
- Introduction of electronic trading – Purchase to Pay P2P process
- Introduction of electronic tendering – electronic issue, receipt and/or adjudication of tenders
- Introduction of electronic auctions
- Use of innovative software to manage the use of resources e.g. print management software (not procurement systems)

- Improved service levels due to resource re-structuring e.g. through the use of central contracts, single source, distribution methods
- Introducing and encouraging new suppliers, thereby increasing competition in the market place

*Example1: College C actively reduced the number of cheques issued to their suppliers by moving to BACS payments. During April-Sept 2009 500 were issued, by actively changing their payment method, during Oct.-Mar. 2010 only 300 were issued. A reduction of 200. This change in the way in which the college pays its suppliers frees up time for the Payment Clerk (PC) who would normally raise the cheques and the Finance Director (FD) who would authorise payment of the cheques. This is not a genuine cash saving in that there are no additional funds available to spend on other goods or services, but the time of the PC and FM has been released, time that they can then spend on doing other work within the College. This is a non cashable saving and would be entered into EMM as '**process re-engineering / non cashable'.***

*N.b If College C were to transfer all 500 cheque payments to BACS and this meant that the PC was no longer required in the College and the position was redundant then this would be a genuine saving – the wage saved from employing the PC would be 'cash releasing' and this would then be entered into EMM as **'process re-engineering / cashable'**.*

Risk reduction, for example, changes to payment terms, such as staged payments or retentions will result in a reduction in both cost and risk. Contracts entered into under College Terms & Conditions rather than the suppliers.
Examples:

- Payment with order reduced/deferred, calculated on pro rata basis: [delivery lead time x interest on advance payment]
- Retention of final payment until satisfactory acceptance, calculated on pro rata basis [(installation period + period of non acceptance) x interest on retention sum]
- Title and risk with supplier until final acceptance, based on the value of insurance premiums, security, double handling, off-loading costs, etc
- Liquidated damages i.e. costs recovered for non-performance etc.
- Reduce risk of losing stage payments should the supplier default on contract

Sustainability encompasses environmental, economic and social issues. While it is often thought of as reducing consumption and waste or recycling, it is also about ensuring people are treated fairly when harvesting or manufacturing goods for our consumption. Thus, it relates to how we do things and how it affects the quality of our lives. Where a change in a process, or the goods or services we use, improves our working environment, reducing workloads and stress levels – this too is a sustainability matter.

- Reduction in waste – packaging, residue from processes etc
- Reduction in consumption - use of raw materials (consumables, utilities etc)
- Recycling and/or reuse of products
- Enhanced Reputation and/or marketing opportunities

How are Risk reduction and Sustainability recorded – this guidance doesn't make it clear?

Q.3 Non Teaching Cost (NTC) / Shared Services (SS) Efficiencies – Cashable savings arising from NTC & SS initiatives:
Colleges are expected to regularly review the way in which their staff operate in support of front line learning and their students. There are 3 main ways in which **non teaching** efficiencies might be generated that can be recorded within EMM;

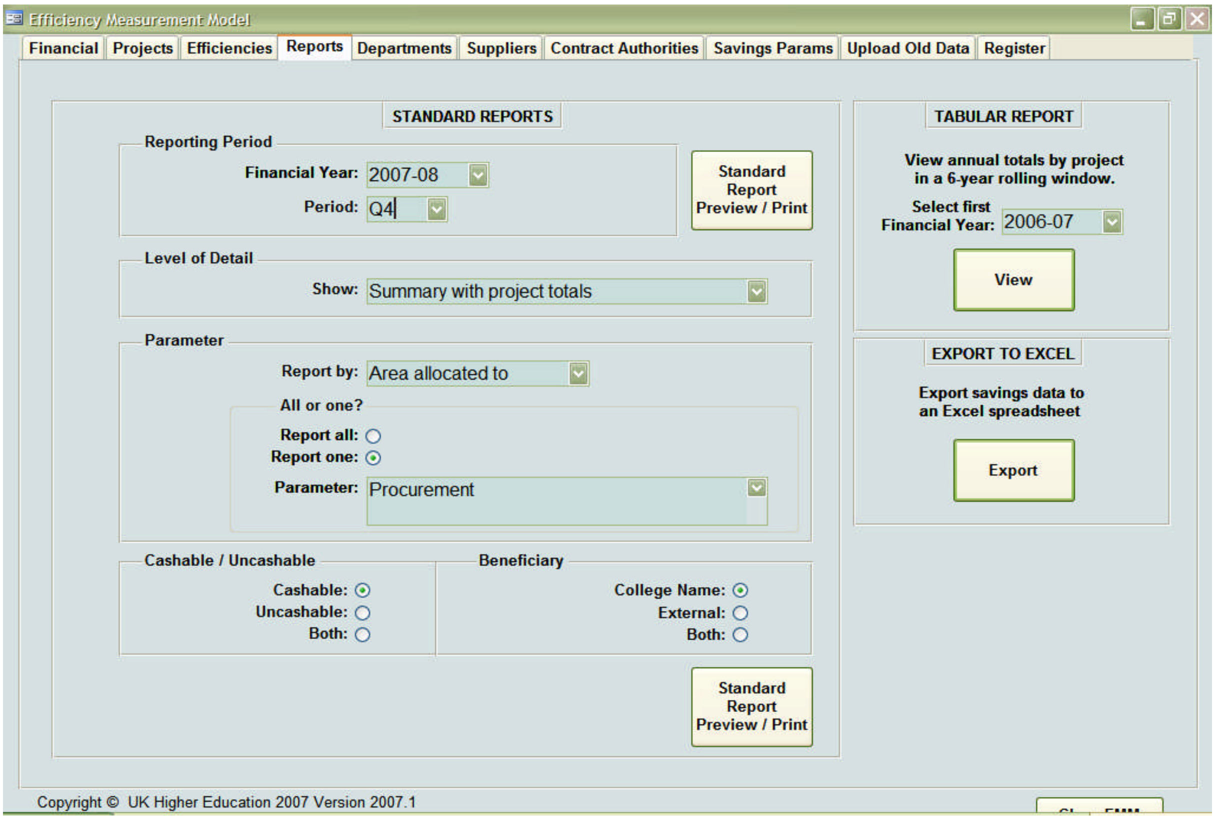
- An increase in workload for non teaching staff which is not met by a proportional increase in staff time and roles

- Internal systems have been improved in efficiency so that time can be spent on other initiatives
- Costs have been reduced or removed, releasing budget to be directed to front line services

It is important that consideration is always given to whether any efficiency being generated is enabling an increase in resources to be directed towards front line teaching. This is a matter for each college to consider depending on their own particular circumstances.
Example1: College A has increased student numbers from 1100 to 1250 but has not made a proportional increase in support staff hours (e.g. Payroll, Library, student Records staff etc.). An efficiency has been realised where the workload of the 150 extra students is absorbed into the workload of existing staff or the increase in non teaching staff hours is proportionally lower than the increase in the 150 additional students. In these circumstances it is reasonable to calculate efficiency achieved in relation to the increase in costs that would have resulted had the number or hours of non teaching staff roles been increased in the same proportion as the growth in student numbers.
N.B The most appropriate calculation for your own college and circumstances should be determined and the basis of the calculation recorded.
Colleges also need to include here efficiencies gained through the sharing of back office functions **(Shared Services)** – e.g. HR Department/Function, Finance, Procurement Function, ICT.
Full guidance can be found on www.felp.ac.uk >> from the Home page >> Efficiency Measurement Model >> under Matching Resources (right hand column) >> document called 'Non Teaching Efficiency Gains – Guidance'.

Q.4 Was the data entered above captured with the Efficiency Measurement Model
The Efficiency Measurement Model (EMM) is a simple Microsoft Access database that has been developed to help organisations capture savings or efficiency data in a methodical way.
EMM captures data on a project by project basis. This is then analysed and presented in tabular format, which can be incorporated into institutional annual reviews as well as forwarded for aggregation and the generation of sector-wide reports.
The model can be downloaded from www.felp.ac.uk – follow the link to Efficiency Measurement Model from the Home Page. If you have not already accessed this website you will need to register first and this can take a few days to set up.
Contact: emmfe@aoc.co.uk

To download the figures from EMM: Go to **'Reports'** tab



Reporting Period:

for the correct figure to be submitted in the 2009 Financial Planning return you need to run 3 separate reports for each of the following periods[1],

1. **Financial Year:** 2008/9
   - **Period:** Q4 (May – July)
2. **Financial Year:** 2009/10
   - **Period:** Q1 (Aug – Oct)
3. **Financial Year:** 2009/10
   - **Period:** Q2 (Nov-Jan)
4. **Financial Year:** 2009/10
   - **Period:** Q3 (Feb-Apr)

Level of Detail:

- **Show:** Summary **with project totals**

Parameter:

- **Report by:** Area allocated to
- **All or one?:** Report One

- **Parameter:** Procurement (Question 1 & Question 2) / Non Teaching (Question 3)

Cashable/Uncashable:

- **Cashable (Question 1 & Question 3) and Uncashable (Question 2)**

[1] The period for the 2009 Financial planning return is the fiscal year, where as EMM captures data using the academic year. Due to this discrepancy the 4 reports stated above capture the 'best fit' data using EMM.

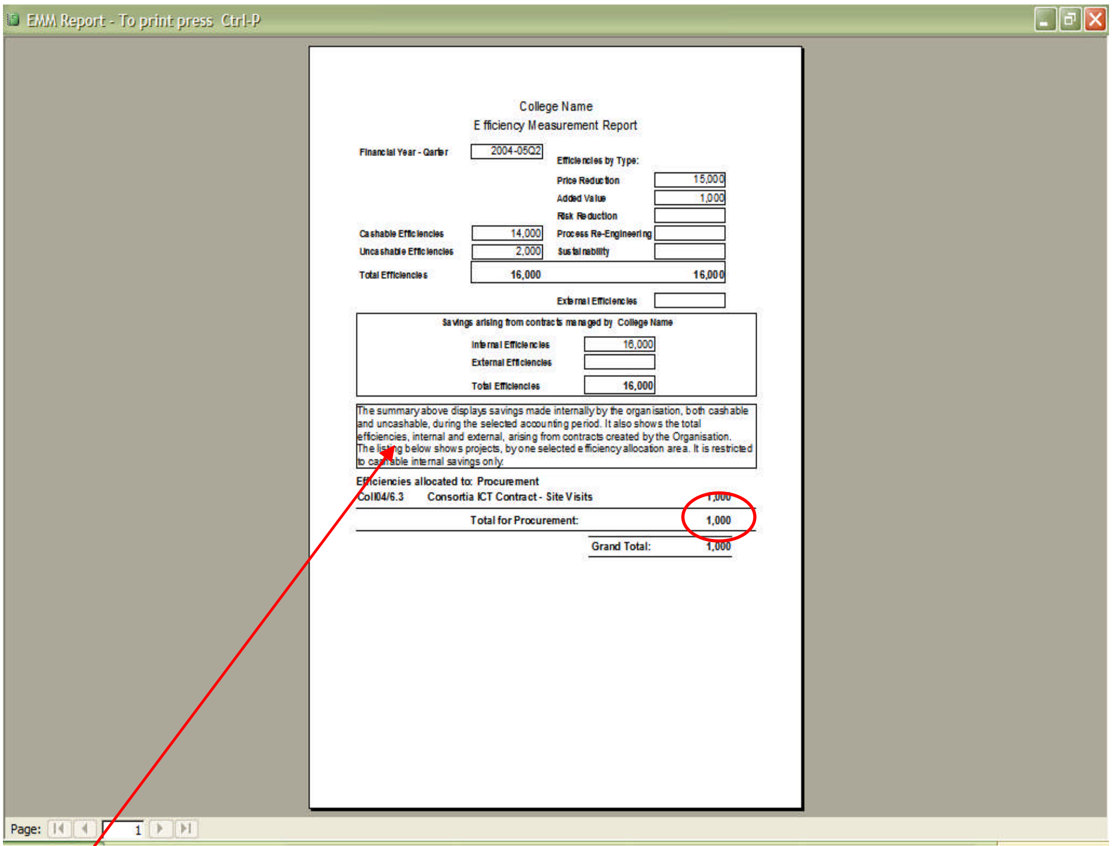
Beneficiary:

- College Name

Click 'Standard Report Preview / Print' button

From the report take the figure at the bottom of the report 'Total for . . . ':

Question 1 = Cashable / Cash Releasing – **Procurement only**
Question 2 = Non Cashable / Uncashable – **Procurement only**
Question 3 = Cashable / Cash Releasing - **Non Teaching**



Tip: Check the report description to ensure you have run the correct report – Paragraph starting "The listing below shows . . . "!
Now add together the <u>total 'quarterly' values from all 4 reports</u> to enter a single figure for each question.

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