Skills Funding Agency

ypla Young People's Learning Agency

Accounts Direction Handbook 2010/11

Effective for all Colleges' financial statements ending on or after 31 July 2011

Summary

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

- to be a one-stop document that Colleges can refer to when completing their financial statements
- to provide further clarification to Colleges on completing the members' report and the accounts to the financial statements
- to provide a version of the Handbook on the funding bodies websites, which is completely up-to-date for changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the Learning and Skills Council (LSC) and its successor bodies.

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

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June 2011

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Purpose of the Handbook

The purpose of this Handbook is to provide direction to Colleges and financial statements auditors on the preparation of Colleges' annual financial statements.

Accounts Direction Handbook 2010/11

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 Young Peoples Learning Agency (YPLA) in consultation with financial statements auditors. The Handbook supplements the 2007 *Statement of Recommended Practice (2007 SORP)* and consolidates all previous accounting policies guidance issued. The Handbook applies for the year ending 31 July 2011, and highlights issues for future years.

The Handbook is of interest to principals and chief executives of Colleges, finance directors at Colleges, financial statements auditors, directors of funding bodies, and other key stakeholder organisations in the learning and skills sector.

The Accounts Direction Handbook 2010/11 supersedes the Handbook published for the 2009/10 financial statements.

Financial supervision of Colleges

Colleges who are now formally designated as Sixth Form Colleges either because they were initially designated under the Initial Sixth Form College Corporation Designation (England) Order 2010, or because they subsequently elected to be designated as such are subject to financial supervision by the YPLA. The remaining Colleges are subject to Skills Funding Agency supervision. Supervision processes utilise the previous arrangements found through the LSC as far as possible.

This Accounts Direction uses the following conventions when describing the various arrangements:

- "LSC" or "FEFC" where there are historic arrangements that have continuing relevance
- "[appropriate/relevant] funding body/bodies" to cover the YPLA and Skills Funding Agency
- "Learning and Skills Council (LSC) and its successor bodies" to encompass situations where procedures were initiated before 1st April 2010 and then taken forward by one or more of the new agencies.

June 2011

Executive Summary

The Accounts Direction Handbook 2010/11 supersedes the Handbook published for the 2009/10 financial statements.

The key changes are as follows.

- Updating for recent new financial reporting standards
- Incorporating relevant elements of the Addendum issued in October 2010

Updates to the Accounts Direction Handbook 2010/11 are available at:

http://www.aoc.co.uk/en/Policy_and_Advisory_Work/finance_and_statistics/finance_directors/benchmarking_accounts_direction.cfm or

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

http://www.ypla.gov.uk/aboutus/ourwork/guidance/assurance-financial-monitoring/financial-management/

Documents to be submitted

The following should be submitted to the appropriate funding body no later than 31 December 2011. For FE Colleges this will be the Skills Funding Agency and for Sixth Form Colleges, the YPLA:

1) audited financial statements (including the regularity audit opinion) of the College and its subsidiaries (where applicable) for the year ending 31 July 2011 (electronic copy of signed accounts if possible)

2) finance record for the year ending 31 July 2011, signed by the Principal or Chief Executive of the College (electronic copies for signed version and unsigned Excel version)

3) financial statements auditor's management letter, including the College's response (electronic version only)

4) Annual Internal Audit report (electronic version only).

Electronic copies for the year ending 31 July 2011 should also be submitted to the appropriate funding body via email at the address shown below no later than 31 December 2011.

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

YPLA: afm@ypla.gov.uk

Hard copy documents that cannot be submitted electronically should be sent to the relevant funding body at the address shown below no later than 31st December 2011.

Skills Funding Agency:
Provider Finance Team
Finance Division
Skills Funding Agency
Cheylesmore House
Quinton Road
Coventry
CV1 2WT

YPLA:
Linda Stubbs
Financial Support Manager
YPLA
Cheylesmore House
Quinton Road
Coventry
CV1 2WT

Further information

For further information, please contact the appropriate funding body.

Responses to this document

Responses are requested by 31 December 2011.

1: Introduction

Introduction

1. The purpose of this Handbook is to provide direction on the preparation of Colleges' financial statements for the year ending 31 July 2011 and to identify issues that will require consideration for future years. This direction supplements that in the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (the 2007 SORP) and supersedes the Handbook published for the 2009/10 financial statements.

2. In publishing this guidance, the Skills Funding Agency and the YPLA have worked with the CFDG and the AoC and consulted with College financial statements auditors.

3. The accounting policies set out in this handbook for the sector are applicable to all Colleges, regardless of their size, constitution or complexity. The policies are not currently applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding.

4. The accounting policies need not be applied to immaterial items. Guidance on the determination of what is material may be found in statement 2.401 *The Interpretation of "Materiality" in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales.

Revisions to Accounting or Auditing Guidance

5. The 2009/10 Handbook took account of Financial Reporting Standards (FRSs) up to FRS 30 *Heritage Assets* and exposure drafts up to and including FRED 42 *Heritage Assets*.

6. All extant accounting standards that are relevant to the sector have been included within the Handbook as appropriate. For completeness this includes all standards up to and including:

   - FRS 30 Heritage Assets
   - UITF Abstract 48 *Accounting Implications of the replacement of the retail prices index with the consumer prices index for retirement benefits*
   - FRED 45 *Financial Reporting Standard for Public Benefit Entities*

Return of Audited Financial Statements for 2010/11

7. The financial relationship between Colleges and FE funding bodies is set out in the financial memorandum as detailed in the LSC publication, *Financial Memorandum, Part 1, issued November 2006*. The *financial memorandum* sets out the terms and conditions on which payments of grant will be made from the FE funding bodies to institutions. Colleges must provide the appropriate funding body with audited financial statements for the financial year no later than five months after the year end.

8. Therefore, each College should send an original signed copy (electronic copy if possible) of its audited financial statements for 2010/11, together with its signed finance record and, where applicable, copies of the audited financial statements of its subsidiaries, to the appropriate funding body to arrive on or before 31 December 2011.

9. Where the College is still subject to the individualised learner record (ILR) audit regime, the return date for the financial statements and finance record is also 31 December 2011.

Audit Reports and Management Letters

10. Colleges should send a copy of the final version of the financial statements auditor's management letter (including any separate regularity audit letter) and the College's response (electronically if possible), to the appropriate funding body by 31 December 2011.

11. Financial statements auditors are reminded that where they are unable to express an unqualified opinion on the College's financial statements, they should immediately communicate this to the Principal, the Chair of the Corporation and the Chair of the Audit Committee. They should also inform the appropriate funding body. Auditors of general FE Colleges should contact the Director of Provider Finance at the Skills Funding Agency.

Guidance

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

Approval of Reports and Financial Statements

13. The reports and financial statements must be approved by the Corporation. They should be signed and dated as follows.

    - The members' report should be signed and dated by the Chair of Governors on behalf of the Corporation.

    - The balance sheet(s) should be signed and dated by the Principal and one other member of the Corporation, usually the Chair of Governors; the director of finance is not required to sign it (them).

    - The Statement of the Responsibilities of the Members of the Corporation should be signed and dated by the Chair of Governors.

    - The Corporate Governance and Internal Control statement should be signed and dated by the Chair of Governors and the Principal.

14. The above items should normally be signed on the same date. They must also be signed on or very shortly before the date on which the College's financial statements auditors sign and date their audit report.

2: Updates to the Accounts Direction Handbook

15. This Handbook is prepared in order to provide:

- a one-stop document that Colleges can refer to when completing their financial statements
- further clarification to Colleges on completing the members' report and the accounts to the financial statements
- a version of the Handbook, accessed through the appropriate website, that is up to date for changes in Generally Accepted Accounting Principles (GAAP) issued by the Accounting Standards Board (ASB) and other guidance issued by the funding agencies.

16. Any future amendments to the Handbook will be tracked and an audit trail of the changes provided.
17. The Handbook will only be re- issued to Colleges when ***substantial*** changes have occurred since its last publication. Latest versions of the Handbook will be published on:

http://skillsfundingagency.bis.gov.uk/funding/financialmanagement/financialmanagement/accountsdirection/ or

http://www.ypla.gov.uk/aboutus/ourwork/guidance/assurance-financial-monitoring/financial-management/

and the AoC will publish at:

http://www.aoc.co.uk/en/Policy_and_Advisory_Work/finance_and_statistics/finance_directors/benchmarking_accounts_direction.cfm

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

3: Other Guidance

Arrangements for the adjustment to payments against Funding Agreements

18. Guidance for providers on how to make Skills Funding Agency claims for 2010/11 is set out in *ILR Funding Claims and Audit Return 2010/11* and is available on the Agency's website. This guidance should be read alongside *Guidance Note 4* issued by the Agency in June 2010 and *Guidance Note 5* issued in July 2010. The Skills Funding Agency issues guidance notes to providers on a regular basis and ***Colleges are advised to check the Agency's website for any further updates.***

Adult Learner-responsive Single Budget

19. The Agency will balance the new freedoms for Colleges against the need to ensure that underperformance is fully recovered to make the best use of public funds.

20. Tolerance arrangements applied in previous years will no longer apply in 2010/11.

21. In 2010/11 where a College falls short of its funding agreement (measured by the combined cash amount for ALR and ER), funding will be recovered in December 2011 based on the Final Funding claim. In addition, the Agency may also adjust a College's 2011/12 allocation, if the under-delivery was not included in the College's mid-year forecast of performance for the 2010/11 year and was not therefore reflected in the 2011/12 allocation.

16-18 Learner-responsive funding model

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

Deadlines

23. The Skills Funding Agency expects all providers receiving ALR funding to comply with the deadline for all returns set out in Table 2 below.

24. In order to meet the returns timetable set out in Table 2, Colleges must ensure that their final funding claims and final ILR data are shared with auditors in time for them to be able to meet the return timetable.

Table 2: Deadlines for returns

Funding model	Deadlines for returns
Mid year estimate	14 February 2011

Year end estimate	5 September 2011
Final Claim	21 November 2011
Final Audit reports	As specified by the responsible funding bodies on an individual provider basis. Where requested, all audit reports on individual funding claim returns must meet the claim return deadlines set out above.

Accounting treatment for adjustments to payments in the 2010/11 financial statements

25. Financial statements auditors must ensure that allocations included in the College accounts match the final funding claim.

26. Any reduction in the College's (revised) 2010/11 recurrent allocation made after 31 July 2011 should be shown as a creditor due within one year in the College's 2010/11 financial statements.

27. Similarly, in the event that a College has amounts agreed for growth funding under the above guidelines, this would be shown as accrued income at that date.

Enhanced Pension Provisions

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

    - enhanced pensions resulting from redundancy (termination related pension entitlements)

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

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

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

31. Each College should discuss with their auditors the suitability of this treatment, and where materially different, the relevant elements of the provision should be recognised under FRS 17. The funding bodies are aware that in certain cases, the FRS 17 valuation for a College has included liabilities in respect of scenario

a) above and that it is complicated to extract those elements from the overall provision for the purposes of the accounts disclosures. Colleges should ensure that sufficient information is conveyed to the actuaries to enable an accurate valuation at the outset but in the (rare) circumstances where this is not possible, the “surplus/deficit” table in the notes to the accounts should clearly identify the FRS 12 element (often described as “unfunded” in the valuation) of the valuation.

32. In the light of the Government’s announcement in the Pre Budget Report on the 22 June 2010, that public sector (and latterly private sector schemes from 8th July 2010) should use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as a factor in determining future pensions increases, Colleges should determine whether it is appropriate to follow this announcement by reviewing the relevant scheme rules for allowability.

Audit Opinion 2010/11

33. The 2010/11 “true and fair” audit opinion can be found on pages 15 and 16 of Chapter 4 of this guidance, and the regularity audit opinion appears on page 17 of Chapter 4. Changes have been made to these opinions to reflect the change in accounting year and to take account of the Machinery of Government changes from 1st April 2010 which impacted on the naming conventions used in particular, as well as to reflect the updated requirements of ISA 700 (Revised).

34. Where the true and fair audit opinion is included on the College’s website, the College should ensure that the statement of Governing Body's responsibilities clearly:

- states the Governing Body's responsibility for the maintenance and integrity of the website
- refers to the fact that uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

35. Where the College decides not to update the statement of Governing Body’s responsibilities, then it should ensure that the true and fair audit opinion shown on the website includes the following words:

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

Going Concern and Impairment Reviews

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

Finance Record 2010/11

37. The finance record is designed to be an electronic version of the audited financial statements. When the funding bodies wish to refer to the financial performance of the sector or of individual colleges (for example, when making submissions to ministers or publishing benchmarking information), then the finance record is the main source.

38. For the 2010/11 finance record, Colleges are requested to submit electronic copies (for signed version and unsigned Excel version) by email to the addresses given by 31 December 2011:

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

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

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

2.1 For all accounting periods commencing on or after 1 August 1999 all further education (FE) institutions have had to prepare their financial statements in accordance with the requirements of the *Statement of Recommended Practice: Accounting for Further and Higher Education* (the SORP). In October 2003 the Higher Education/Further Education Board for the SORP (the HE/FE SORP Board) issued a revised SORP, which was effective for all accounting periods commencing on or after 1 August 2003. This version was revised in turn by the issue of an updated SORP in July 2007. ***The revised SORP is the primary document to be followed by Colleges and that in accordance with FRS 18.58, any departure from the provisions of the SORP should be explained in the financial statements***. For ease of reference, a copy of the SORP is provided in this Handbook at Chapter 3.

2.2 The SORP is intended to apply to all Colleges, including voluntary aided sixth-form colleges, voluntary controlled sixth-form colleges and specialist designated institutions. Where these bodies are constituted as companies limited by guarantee they should follow the SORP with any additional disclosures required to comply with the Companies Act 2006.

2.3 As the FE and higher education (HE) sectors have special financial and reporting issues that are different from other organisations that have charitable status, the Further and Higher Education SORP takes precedence over the Charities SORP. Where a College is a separate registered charity and seeks clarification on the basis on which to prepare its accounts, then it should discuss its position with its financial statements auditors and the appropriate funding body.

2.4 The Accounting Standards Board (ASB) wishes to see the continuance of a high-quality SORP for the further and higher education sectors. To meet this objective, the LSC agreed the following with the HE/FE SORP Board.

- The HE/FE SORP Board will issue an accounts direction on any necessary amendments to the SORP. The accounts direction for Colleges is published annually by the funding bodies and ensures that all institutions in the further education sectors prepare financial statements on a comparable and consistent basis.
- Additional disclosure requirements, such as corporate governance statements, are issued by individual funding councils.

Articles of Government

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

> *22 (1) The Corporation shall –*
>
> *(a) keep proper accounts and proper records in relation to the accounts; and*
>
> *(b) prepare in respect of each financial year of the Corporation a statement of accounts.*
>
> *(2) The statement shall –*
>
> *(a) give a true and fair account of the state of the Corporation's affairs at the end of the financial year and of its income and expenditure in the financial year; and*
>
> *(b) comply with any directions given by the LSC as to the information to be contained in it, the manner in which the information is to be presented, the methods and principles according to which it is to be prepared and the time and manner of publication.*

Preparation of Financial Statements for Audit

2.6 It is a duty of the members of the Corporation to present audited financial statements to the appropriate funding body by the relevant date (for Colleges with a 31 July year or period end this will normally be 31 December). To meet this deadline, it will be necessary for the members of the Corporation to consider:

- the date upon which the financial statements will receive the approval of the members of the Corporation
- the availability of the Chair and Principal to sign the financial statements on behalf of members of the board
- the timing of the audit itself.

2.7 With regard to the timing of the audit, it will be dependent upon the following:

- the date upon which the draft financial statements (including lead schedules, supporting detail, and so on) are available to the auditors
- the time necessary to complete the audit
- the date that the audited individualised learner record (ILR) is available to the financial statements auditor (for Colleges outside plan-led funding)
- the target date for approval of the financial statements by the members of the Corporation.

2.8 Therefore, it will be necessary for the College to consult with its financial statements auditor and where applicable the funding auditor and plan resources to achieve the requisite timetable.

Other

2.9 This accounts direction for the sector is applicable to all Colleges, regardless of their size, constitution or complexity. It is not currently applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding.

2.10 The accounts direction does not need to be applied to immaterial items. Guidance for preparers of financial statements on the determination of what is material may be found in statement TECH 03/08 *Guidance on Materiality in Financial Reporting* issued by the Council of the Institute of Chartered Accountants in England and Wales.

International Financial Reporting Standards (IFRS)

2.11 The Accounting Standards Board issued a consultation paper 'Policy Proposal: the future of UK GAAP' in August 2009 which set out its proposals for the future reporting requirements for UK and Irish entities. The UK Accounting Standards Board subsequently issued published a FRED for the future of financial reporting in the UK and Republic of Ireland in October 2010. The Exposure Draft sets out proposals for a three-tier reporting framework, which aims to balance the needs of preparers and users of accounts.

2.12 The FRED includes two draft FRSs:

- Application of Financial Reporting Requirements (setting out the tier system and application guidance on the definition of public accountability); and
- The Financial Reporting Standard for Medium-sized Entities (based on the IASB's IFRS for SMEs, and applicable to entities which are not small and not publicly accountable).

2.13 The proposals in the FRED recognise that one size of accounting standard does not fit all entities and it therefore proposes a tier system for financial reporting that requires entities to prepare financial statements in one of the following three tiers (an entity may voluntarily elect to adopt a higher tier):

	Accounting Regime	Nature of Entity	Reduced disclosures for:
Tier 1	EU-adopted IFRS	Publicly accountable	Qualifying Subsidiaries
Tier 2	FRSME	Entities without public accountability	Qualifying Subsidiaries
Tier 3	FRSSE	Smaller entities without public accountability	

2.14 It is currently anticipated that most Colleges will fall within Tier 2. It is also anticipated that the new framework would be effective for accounting periods beginning on or after 1 July 2013, with earlier adoption permitted. This would therefore mean that IFRS would apply to Colleges for the year 2013/14.

2.15 The ASB also asked its Committee on Accounting for Public Benefit Entities to commence work on a new Financial Reporting Standard for Public Benefit Entities and the ASB has agreed that certain SORPs will be retained, including the Further and Higher Education SORP. A further FRED (45) was published in March 2011 setting out the specific differences for Public Benefit Entities.

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

See separate document

Further copies can be obtained from the Universities UK website at:

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

Chapter 4: Casterbridge College Model Financial Statements

[Colleges should delete the above when using this document for their own purposes

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

CASTERBRIDGE COLLEGE

Report and Financial Statements
for the year ended 31 July 2011

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

Operating and Financial Review

NATURE, OBJECTIVES AND STRATEGIES:

The members present their report and the audited financial statements for the year ended 31 July 2011.

Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting Casterbridge College. The College is an exempt charity for the purposes of the Charities Act 1993 as amended by the Charities Act 2006.

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

Mission

Governors reviewed the College's mission during 2008/09 and in January 2010 adopted a revised mission statement as follows:

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

Implementation of strategic plan

In July 2009 the College adopted a strategic plan for the period 1 August 2009 to 31 July 2012. This strategic plan includes property and financial plans. The Corporation monitors the performance of the College against these plans. The plans are reviewed and updated each year. The College's continuing strategic objectives are to:

- achieve a student body of 8,200 full-time equivalents (FTEs) by 31 July 2012 funded by the funding bodies
- improve student retention to 92 per cent by 31 July 2012
- achieve a grade 2 for all areas in the 2011 College inspection
- retain the Investors in People award
- achieve space utilisation of 5 m^2 per FTE by 31 July 2012
- maintain the financial viability of the College by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5 per cent of income.

The College is on target for achieving these objectives.

The College's specific objectives for 2010/11 and achievement of those objectives is addressed below.

- the College achieved 8,060 SLN learners funded by the funding bodies against a target of 8,200 SLN learners (see below).
- on 15 January 2011 the Corporation resolved to merge with Wessex College of Agriculture; this merger was achieved on 1 August 2011.
- increased collaboration with Casterbridge Schools, particularly in relation to the expansion of our work-related learning offer for 14–16 year olds.
- establishment of a successful Employer Training scheme delivering training in the workplace on demand.
- to improve student retention to 90 per cent – this was achieved.

- to maintain the financial viability of the College by maintaining cash days in hand of 40, a current ratio of 2:1, and accumulated reserves of 5 per cent of income – this was achieved.
- increased numbers of teachers undertook teacher training and gained qualifications.
- a series of successful Transforming Teaching projects was established.

Financial objectives

The College's financial objectives are:

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

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

Performance indicators

The "Framework for Excellence" has four key performance indicators:

- Success rates
- Learner destinations
- Learner views
- Employer views

Note: The department for Education has announced that Sixth Form College will not have to undertake the Learner Views and Employer Views surveys in 2010/11
The financial Indicators (Financial Health and Financial Management and Control) will continue to be graded and will be reported to providers directly by the relevant funding body. As this direct reporting occurs earlier than Framework for Excellence reporting, these Performance Indicators will no longer be included in the Framework for Excellence Application.
The College is committed to observing the importance of the measures and indicators within the Framework and is monitoring these through the completion of the annual Finance Record for the Skills Funding Agency/Young Peoples Learning Agency ("YPLA"). The current rating of Good is considered an acceptable outcome.

FINANCIAL POSITION

Financial results

The College generated an operating deficit in the year of £9,770,000 (2009/10 – surplus of £567,000). The result in 2010/11 is stated after accounting for the disposal of the Church Street annexe.

The College has accumulated reserves of £17,359,000 and cash balances of £8,512,000. The College wishes to continue to accumulate reserves and cash balances in order to create a contingency fund.
Tangible fixed asset additions during the year amounted to £16,584,000. This was split between land and buildings acquired of £12,981,000 and equipment purchased of £3,603,000. In the main, this related to the new building on main site. The building

cost £12.1 million and replaces a number of poor-quality temporary classrooms. The building includes a learning resource centre, which has enabled the College to change its teaching methods, to make a greater use of information technology, and to become more efficient. The building was opened on 10 October 2011 by the Secretary of State.
The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. In 2010/11 the funding bodies provided 52% of the College's total income.
The College has two subsidiary companies, ABC Limited and XYZ Limited. The principal activity of ABC Limited is the rental of property, whilst XYZ Limited carries out training of employees on behalf of employers. Any surpluses generated by the subsidiaries are transferred to the College under deed of covenant. In the current year, the surpluses generated were £18,000 and £12,000 for ABC Limited and XYZ Limited respectively.

Treasury policies and objectives

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

The College has a separate treasury management policy in place.
Short term borrowing for temporary revenue purposes is authorised by the Principal. Such arrangements are restricted by limits in the College's Financial Memorandum previously agreed with the LSC and subsequently transferred to the [Skills Funding Agency/YPLA]. All other borrowing requires the authorisation of the Corporation and shall comply with the requirements of the Financial Memorandum.

Cash flows

At £1.46 million (2009/10 £0.77 million), operating cash in flow was reasonably strong. The net cashflow resulted from the receipt of a new loan of £4.5 million and the management of liquid resources of £1.85 million.

Liquidity

During the year the College took out a secured loan of £4.5 million in order to help finance a new building on its main site. The balance of the £12.1 million capital cost was met by use of the disposal proceeds from the sale of the College's Church Street annexe for £7.5 million.
The size of the College's total borrowing and its approach to interest rates has been calculated to ensure a reasonable cushion between the total cost of servicing debt and operating cashflow. During the year this margin was comfortably exceeded.

CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

Student numbers

In 2010/11 the College has delivered activity that has produced £20,783,000 in funding body main allocation funding (2009/10 – £20,850,000). The College had approximately 8,500 funded and 2,000 non-funded students.

Student achievements

Students continue to prosper at the College. Success rates rose again in 2009/10 from 2008/09 from 66 per cent to 72 per cent and, while it is too early to make predictions about success rates for 2010/11, there is no reason to expect the upwards trend of the last few years to be reversed.

Curriculum developments
The College has a national reputation for curriculum innovation and change. It has introduced new courses in many areas of the curriculum in order to meet student needs better. A particular strength is in making students ready for the next stage in their lives.
Many of our students have low levels of prior educational achievement. The College is growing the range of courses aimed at students who are returning to education. These include [***give specific details of major programmes***].
Courses have been designed to ensure students are able to move securely into the labour market. The major curriculum initiative this year is a partnership with Get-it Right Consultants Limited to develop a range of Skills for Industry courses in IT, Retail, Hospitality and Public Administration. The first two have already been piloted, while the courses in Hospitality and Public Administration will be run for the first time next year.
Other courses prepare students for university. These include:

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

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent. During the accounting period 1 August 2010 to 31 July 2011, the College paid 96.4 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Post-balance sheet events

On 1 August 2011 the College merged its activities with those of Wessex College of Agriculture.

Future developments

With regard to the improved capacity provided by the new building on main site, the College seeks to significantly increase student numbers over the next three years. The College aims to significantly increase contribution by introducing a number of efficiency schemes across the college site. The College would like to reduce dependency on the [Skills Funding Agency/YPLA] and is seeking opportunities particularly in the areas where the College currently performs well such as HEFCE and European Commission grants.
[Consider need for specific paragraphs on appropriateness of "going concern" assumption]

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

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

Financial

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

People

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

Reputation

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

PRINCIPAL RISKS AND UNCERTAINTIES:

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

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

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

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

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

1. Government funding

The College has considerable reliance on continued government funding through the education sector funding bodies and through HEFCE. In 2010/11, 77% of the College's revenue was ultimately public funded and this level of requirement is expected to continue. There are can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

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

- The demand led funding system which applies a series of factors such as guided learning hours and success rates to calculate an amount of funding to be received for each learner. Such funding cannot be guaranteed though.
- [etc]

This risk is mitigated in a number of ways:

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

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

2. Tuition fee policy
Ministers have confirmed that the fee assumption will increase from 47.5% in 2009/10 to 50% in 2010/11. In line with the majority of other colleges, Casterbridge College will seek to increase tuition fees in accordance with the rising fee assumptions. The price elasticity of adult learning is not yet fully understood. The risk for the College is that demand falls off as fees increased. This will impact on the growth strategy of the College
This risk is mitigated in a number of ways:

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

3. Maintain adequate funding of pension liabilities
The financial statements report the share of the pension scheme deficit on the College's balance sheet in line with the requirements of FRS 17.
[Colleges may want to consider other examples such as Coalition Government policy changes and increased uncertainty over income streams; overseas students; demographic change; accommodation strategy, etc according to specific circumstances. The College's risk register should be a useful source of information here]

STAKEHOLDER RELATIONSHIPS

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

- Students;
- Funding Councils;
- Staff;
- Local employers (with specific links);
- Local authorities;
- Government Offices/ Regional Development Agencies;
- The local community;
- Other FE institutions;
- Trade unions;
- Professional bodies.

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

Equal opportunities and employment of disabled persons

Casterbridge College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, ability, class and age. We strive vigorously to remove conditions which place people at a disadvantage and we will actively combat bigotry. This policy will be resourced, implemented and monitored on a planned basis.
The College's Equal Opportunities Policy, including its Race Relations and Transgender Policies, is published on the College's Internet site.
The College considers all applications from disabled persons, bearing in mind the aptitudes of the individuals concerned. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion, which are, as far as possible, identical to those for other employees. An equalities plan is published each year and monitored by managers and governors.

Disability statement

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

a) As part of its accommodation strategy the College updated its access audit. Experts in this field conducted a full access audit during 2007/08, and the results of this formed the basis of a bid to the LSC for funding capital projects aimed at improving access.
b) The College has appointed an Access Co-ordinator, who provides information, advice and arranges support where necessary for students with disabilities.
c) There is a list of specialist equipment, such as radio aids, which the College can make available for use by students and a range of assistive technology is available in the learning centre.
d) The admissions policy for all students is described in the College charter. Appeals against a decision not to offer a place are dealt with under the complaints policy.
e) The College has made a significant investment in the appointment of specialist lecturers to support students with learning difficulties and/or disabilities. There are a number of student support assistants who can provide a variety of support for learning. There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for students who have learning difficulties and/or disabilities.
f) Specialist programmes are described in College prospectuses, and achievements and destinations are recorded and published in the standard College format.
g) Counselling and welfare services are described in the College Student Guide, which is issued to students together with the Complaints and Disciplinary Procedure leaflets at induction.

Disclosure of information to auditors

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

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

[Name to be typed in]

[Chair]

Professional advisers

Financial statement and regularity auditors:

Yates Umbleby LLP
Cathedral Close
Greshambury

Internal auditors:

Gradgrind & Gradgrind
Stone Lodge
Facts Street
Coketown

Bankers:

Nickleby's Bank
1 Golden Square
London

Solicitors:

Tulkinghorn & Co
Cook's Court
Cursitor Street
London

Statement of Corporate Governance and Internal Control

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

In the opinion of the governors, the College complies with all the provisions of the Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2011.

The Corporation

The members who served on the Corporation during the year and up to the date of signature of this report were as listed in Table 2.

Table 2: Governors serving on the College Board during 2010/11

	Date of Appointment	Term of office	Date of resignation	Status of appointment	Committees served
Ms C Linton	30 Sept 2007; reappointed 29 Sept 2011	3 years		Independent member	Chair: Corporation; Chair: Remuneration; finance and general purposes; search
Mr M Henchard	–			Principal	
Ms M Bold	2 Sept 2008	4 years		Independent member	Chair: finance and general purposes
Mr D Farfrae	2 Sept 2008	4 years		Independent member	Chair: audit
Ms U Meah	2 Sept 2008	4 years		Independent member	Finance and general purposes
Ms B Sharp	30 Sept 2010	3 years		Community representative	Finance and general purposes; search
Mr A Child	30 Sept 2010	4 years		Co-opted member	Audit
Mr T Tulliver	1 Oct 2010	1 year	1 July 2011	Student member	
Capt. F Wentworth	4 Sept 2010	4 years		Independent member	Remuneration
Mr S Marner	4 Sept 2010	4 years		Independent member	Audit
Ms A Sedley	1 Oct 2011	1 year		Student member	
Mr M Choakumchild	30 Sept 2010	3 years		Staff member	
Ms A Elliott	2 Dec 2010	3 years		Co-opted member	Remuneration Chair: search committee
Mr P Finn	2 Dec 2010	3 years		Independent member	Finance and general purposes
Mr C Lal	1 Oct 2010	3 years		Independent member	Finance and general purposes
Mr F Karamazov	1 Oct 2010	3 years		Independent member	Finance and general purposes
Mr M Gazebee, a retired solicitor, acts as Clerk to the Corporation.					

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

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

The Corporation conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Corporation. These committees are finance and general purposes, remuneration, search and audit.

Full minutes of all meetings, except those deemed to be confidential by the Corporation, are available from the clerk to the Corporation at:

Casterbridge College
Corn Street
Casterbridge
Wessex
CS1 1AB

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

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

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

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

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

Appointments to the Corporation

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

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

Remuneration committee

Throughout the year ending 31 July 2011, the College's remuneration committee comprised three members of the Corporation. The committee's responsibilities are to make recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders.

Details of remuneration for the year ended 31 July 2011 are set out in note 7 to the financial statements.

Audit committee

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

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

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

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.
The Audit Committee also advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

Internal control

Scope of responsibility

The Corporation is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.
The Corporation has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which [he / she] is personally responsible, in accordance with the responsibilities assigned to [him / her] in the Financial Memorandum between Casterbridge College and the funding bodies. [He / She] is also responsible for reporting to the Corporation any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Casterbridge College for the year ended 31 July 2011 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Corporation has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Corporation is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2011 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Corporation.

The risk and control framework

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

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the governing body
- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts
- setting targets to measure financial and other performance
- clearly defined capital investment control guidelines
- the adoption of formal project management disciplines, where appropriate.

Casterbridge College has an internal audit service, which operates in accordance with the requirements of the LSC's *Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and

annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Corporation on the recommendation of the audit committee. At minimum annually, the Head of Internal Audit (HIA) provides the governing body with a report on internal audit activity in the College. The report includes the HIA's independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

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

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

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

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Corporation's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its October 2011 meeting, the Corporation carried out the annual assessment for the year ended 31 July 2011 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2011.

Going concern

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

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

[Signed]	**[Signed]**
[Name to be typed]	**[Name to be typed]**
[Chair]	**[Principal]**

Statement of Responsibilities of the Members of the Corporation

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

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

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

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

The Corporation is also required to prepare a Members Report which describes what it is trying to do and how it is going about it, including the legal and administrative status of the College.

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

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

Members of the Corporation are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the [the Skills Funding Agency / YPLA] are used only in accordance with the Financial Memorandum with the [the Skills Funding Agency / YPLA] and any other conditions that may be prescribed from time to time. Members of the Corporation must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, members of the Corporation are responsible for securing economical, efficient and effective management of the College's resources and expenditure, so that the benefits that should be derived from the application of public funds from the [the Skills Funding Agency / YPLA] are not put at risk.

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

[Name to be typed]
[Chair]

Independent Auditors' Report to the Corporation of Casterbridge College

[To be issued]

[

Independent Auditors' Report on Regularity to the Corporation of Casterbridge College ('the Corporation') and the [Chief Executive of Skills Funding/Young People's Learning Agency]

In accordance with the terms of our engagement letter and further to the requirements of the [Chief Executive of Skills Funding/Young People's Learning Agency], we have carried out a review to obtain assurance about whether, in all material respects, the expenditure and income of Casterbridge College ('the College') for the year ended 31 July 2011 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Our responsibilities for this review are established in the United Kingdom by our profession's ethical guidance and the audit guidance set out in the Audit Code of Practice and the Regularity Audit Framework issued by the Learning and Skills Council. We report to you whether, in our opinion, in all material respects, the College's expenditure and income for the year ended 31 July 2011 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Basis of opinion

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

Independent Auditors’ Report on Regularity to the Corporation of Casterbridge College (‘the Corporation’) and the [Chief Executive of Skills Funding/Young People’s Learning Agency] (continued)

Opinion

In our opinion, in all material respects the expenditure and income for the year ended 31 July 2011 have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

______________________________ ______________________________

Yates Umbleby LLP Date

Chartered Accountants

Consolidated Income and Expenditure Account

	Notes		2011		2010
		£'000	£'000	£'000	£'000
INCOME					
Funding body grants	2		32,944		36,921
Tuition fees and education contracts	3		4,661		4,944
Research grants and contracts	4		228		303
Other income			2,550		1,875
Endowment and investment income	5		2,256		2,089
Total income			**42,639**		**46,132**
EXPENDITURE					
Staff costs	6	26,006		28,875	
Exceptional restructuring costs	6	1,551		0	
Other operating expenses	8	11,418		13,557	
Depreciation	12	4,038		2,802	
Interest and other finance costs	9	108		0	
Total expenditure			**43,121**		**45,234**
Deficit/surplus on continuing operations prior to costs relating to the property strategy			(482)		898
Accelerated depreciation	31		(-)		(-)
Release of capital grants related to accelerated depreciation	31		-		-
Property strategy costs	x		(-)		(-)
Grant support for property strategy costs	x		-		-
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax			**(482)**		**898**
Loss on disposal of assets	12		(9,420)		0
(Deficit)/surplus on continuing operations after depreciation of assets at valuation, exceptional items and disposal of assets but before tax			**(9,902)**		**898**
Taxation	10		(12)		(12)
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax	**11**		**(9,914)**		**886**
Surplus/(deficit) for the year transferred from accumulated income in endowment funds			50		0
(Deficit)/surplus for the year retained within general reserves			**(9,864)**		**886**

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

Consolidated Statement of Historical Cost Surpluses and Deficits

	Notes	2011	2010
(Deficit)/surplus on continuing operations before taxation		(9,902)	898
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	1,416	1,431
Historical cost surplus for the year before taxation		8,434	2,329
Historical cost surplus for the year after taxation		8,422	2,317

Consolidated Statement of Total Recognised Gains and Losses

	Notes	2011	2010
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposals of assets and tax		(9,914)	886
Unrealised surplus on revaluation of fixed assets	12	5,100	0
Appreciation of endowment asset investments	21	2,200	0
Actuarial gain/(loss) in respect of pension scheme including the CPI adjustment of £nil (2010 £xxx,000)	32	(2,806)	(2,416)
New endowments	21	100	0
[illegible]		[illegible]	[illegible]

Reconciliation

	2011	2010
Opening reserves and endowments	94,119	95,649
Total recognised losses for the year	(5,320)	(1,530)
Closing reserves and endowments	**88,799**	**94,119**

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

Balance sheets as at 31 July

	Notes	Group 2011	College 2011	Group 2010	College 2010
Fixed assets					
Tangible assets	12	74,751	74,337	73,974	73,584
Investments	13	0	6	0	6
Total fixed assets		**74,751**	**74,343**	**73,974**	**73,590**
Endowment assets	**14**	**26,850**	**26,850**	**24,600**	**24,600**
Current assets					
Stocks		129	114	129	108
Debtors	15	1,170	1,116	1,290	1,317
[Assets held for resale]					
Investments		6,000	6,000	7,500	7,500
Cash at bank and in hand		2,512	2,512	585	585
Total current assets		9,811	9,742	9,504	9,510
Less: Creditors – amounts falling due within one year	16	(4,344)	(3,972)	(3,951)	(3,648)
Net current assets		**5,467**	**5,770**	**5,553**	**5,862**
Total assets less current liabilities		**107,068**	**106,963**	**104,127**	**104,052**
Less: Creditors – amounts falling due after more than one year	17	4,401	4,401	162	162
Less: Provisions for liabilities	19	3,498	3,498	2,124	2,124
Net assets excluding pension (liability)/asset		**99,169**	**99,064**	**101,841**	**101,766**
Net pension (liability)/asset	32	(1,460)	(1,460)	1,440	1,440
NET ASSETS INCLUDING PENSION ASSET/(LIABILITY)		**97,709**	**97,604**	**103,281**	**103,206**
Deferred capital grants	20	8,910	8,910	9,162	9,162
Expendable endowments	21	13,010	13,010	12,000	12,000
Permanent endowments	21	13,840	13,840	12,600	12,600
Total endowments		**26,850**	**26,850**	**24,600**	**24,600**
Reserves					
Income and expenditure account excluding pension reserve	23	17,359	17,254	8,793	8,718
Pension reserve	32	(1,460)	(1,460)	1,440	1,440
Income and expenditure account including pension reserve	23	15,899	15,794	10,233	10,158
Revaluation reserve	22	46,050	46,050	59,286	59,286
Total reserves		**61,949**	**61,844**	**69,519**	**69,444**
TOTAL FUNDS		**97,709**	**97,604**	**103,281**	**103,206**

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

[Name to be typed in]
Chair

[Name to be typed in]
Principal

Consolidated Cash Flow Statement

	Notes	2011	2010
		£'000	£'000
Cash inflow from operating activities	24	1,461	774
Returns on investments and servicing of finance	25	1,895	1,437
Taxation	10	(12)	(12)
Capital expenditure and financial investment	26	(7,731)	(6,363)
Management of liquid resources	27	1,850	0
Financing	28	4,464	(36)
Increase / (decrease) in cash in the year	**29**	**1,927**	**(4,200)**

Reconciliation of net cash flow to movement in net funds/(debt)

	Notes	2011	2010
Increase/(decrease) in cash in the period		1,927	(4,200)
Cash inflow from new secured loan	28	(4,500)	0
Cash inflow from liquid resources	27	(1,850)	0
Cash outflow from decrease in lease financing	28	36	45
Movement in net funds in the period		(4,387)	(4,155)
Net funds at 1 August		10,587	14,742
Net funds at 31 July		**6,200**	**10,587**

Notes to the Accounts

1. Accounting policies

Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2007* (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published jointly by the Skills Funding Agency and the YPLA in the 2010/11 Accounts Direction Handbook.

Basis of accounting

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

Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Operating and Financial Review. The financial position of the College, its cashflow, liquidity and borrowings are described in the Financial Statements and accompanying Notes.
The College currently has £4.5m of loans outstanding with bankers on terms negotiated in 2008. Additionally there is £1m of uncommitted facility available for unconditional drawdown with all being secured by a fixed and floating charge on College assets. The terms of the existing agreement are for up to another 15 years. The College's forecasts and financial projections indicate that it will be able to operate within this existing facility and covenants for the foreseeable future. Accordingly the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, ABC Limited and XYZ Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with Financial Reporting Standard (FRS) 2, the activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2011.

Recognition of income

*[**For colleges subject to funding audit or assurance**:]*

The recurrent grant from the funding bodies is that receivable as determined by the results of the funding audit undertaken. The recurrent grant from HEFCE represents the funding allocation attributable to the current financial year and is credited direct to the income and expenditure account.
***[For colleges not subject to funding audit or assurance**:]*
The recurrent grant from HEFCE represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account.
Funding body recurrent grants are recognised in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under or over achievement for the adult learner responsive funding element is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year end reconciliation process with the funding body at the end of November following the year end. Employer responsive grant income is recognised based on a year end reconciliation of income claimed and actual delivery. 16-18 learner-responsive funding is not normally subject to a reconciliation and is therefore not subject to contract adjustments.
Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.
Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors, for example the National Health Service.
Income from grants, contracts and other services rendered is included to the extent the conditions of the funding have been met or the extent of the completion of the contract or service concerned.
All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from restricted purpose endowment funds not expended in accordance with the restrictions of the endowment in the period is transferred from the income and expenditure account to accumulated income within endowment funds.

Post retirement benefits

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS).
Contributions to the TPS are calculated so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 32, the TPS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.
The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of

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

Enhanced Pensions

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

Tangible fixed assets

Land and buildings

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

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

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

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

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Assets under construction ***[if appropriate]***

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

Subsequent expenditure on existing fixed assets

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

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

Buildings owned by third parties

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

Equipment

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

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

- building improvements – 10 years on a straight-line basis
- technical equipment – 6 years on a straight-line basis
- motor vehicles – 4 years on a straight-line basis
- computer equipment – 4 years on a straight-line basis
- furniture, fixtures and fittings – 6 years on a straight-line basis.

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

Leased assets

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

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of

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

Investments and endowment assets

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

Stocks

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

Foreign currency translation

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

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.
The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.
The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid resources

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

Provisions

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

Agency arrangements

The College acts as an agent in the collection and payment of discretionary support Funds [and ***– insert details of any other arrangements e.g. educational maintenance allowances, adult learning grants etc***]. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the Income and Expenditure account and are shown separately in Note 38,

except for the 5 per cent of the grant received which is available to the College to cover administration costs relating to the grant. The College employs one member of staff dedicated to the administration of Learner Support Fund applications and payments.
[Colleges should only disclose those accounting policies that are material and relevant to their specific situation. The above accounting policies should therefore be tailored accordingly.]

2 Funding body grants

	2011	2010
	£'000	£'000
[Main funding body] recurrent grant	20,783	27,716
[Other funding body] recurrent grant		
HEFCE Recurrent grant	8,800	7,950
[Main funding body] non recurrent grants	1,343	794
Other funding body] non recurrent grants		
Releases of deferred capital grants (note 20)	1,881	461
HE development grant	137	0
Total	**32,944**	**36,921**

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

	2011	2010
	£'000	£'000
Train To Gain income	495	0
Payments to non College partners	(150)	0
Payments to College partners	(295)	0
Net income	**50**	**0**

3 Tuition fees and education contracts

	2011	2010
	£'000	£'000
Tuition fees	2,415	2,436
Education contracts	2,246	2,508
Total	**4,661**	**4,944**

Tuition fees funded by bursaries

Included within the above amounts are tuition fees funded by bursaries of £xxx (2009/10 £xxx).

4 Research grants and contracts

	2011	2010
	£'000	£'000
Research Council	15	12
UK-based charities	0	0
European Commission	156	240
Other grants and contracts	57	51
Total	**228**	**303**

5 Endowment and investment income

	2011	2010
	£'000	£'000
Income from specific endowment asset investments (note 21)	500	594
Income from general endowment asset investments (note 21)	300	96

Other investment income	120	105
Other interest receivable	1,083	642
	2,003	**1,437**
Pension finance income (note 32)	253	652
Total	**2,256**	**2,089**

6 Staff costs

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

	2011	**2010**
	No.	**No.**
Teaching staff	787	957
Non teaching staff	440	396
	1,227	**1,353**

Staff costs for the above persons

	2011	**2010**
	£'000	**£'000**
Wages and salaries	21,729	25,116
Social security costs	1,431	1,773
Other pension costs (including FRS 17 adjustments of £347,000 –	1,514	1,986
Payroll sub total	**24,674**	**28,875**
Contracted out staffing services	1,332	0
	26,006	**28,875**
Exceptional restructuring costs	1,551	0
	27,557	**28,875**

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

	Senior post-holders		**Other staff**	
	2011	**2010**	**2011**	**2010**
	No.	**No.**	**No.**	**No.**
£60,001 to £70,000	0	0	0	0
£70,001 to £80,000	2	1	0	0
£80,001 to £90,000	1	1	0	0
	3	**2**	**0**	**0**

7 Senior post-holders' emoluments

Senior post-holders are defined as the Principal and holders of the other senior posts whom the

	2011	**2010**
	No.	**No.**

The number of senior post-holders including the Principal was:	3	3

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

	2011 £'000	2010 £'000
Salaries	187	178
Benefits in kind	9	8
Pension contributions	21	19
Total emoluments	217	205

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

	2011 £'000	2010 £'000
Salaries	74	71
Benefits in kind	5	4
	79	75
Pension contributions	5	5

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's

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

	2011 £	2010 £
Compensation paid to the former post-holder	8,572	0
Estimated value of other benefits, including provisions for pension	2,829	0

The estimated value of other benefits has been calculated in accordance with Financial Reporting

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

8 Other operating expenses

	2011 £'000	2010 £'000
Teaching costs	3,369	3,504
Non teaching costs	6,162	6,081
Premises costs	1,887	3,972
Total	**11,418**	**13,557**

Other operating expenses include:	2011 £'000	2010 £'000
Auditors' remuneration:		
Financial statements audit*	39	36
Internal audit**	30	30
Other services provided by the financial statements	12	12
Other services provided by the internal auditors	5	3
Losses on disposal of tangible fixed assets (where not material)	6	0
Hire of plant and machinery – operating leases	15	15
Hire of other assets – operating leases	3	3

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

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

[see Chapter 5, Section 5.15 for further disclosure details]***

9 Interest and other finance costs

	2011 £'000	2010 £'000
On bank loans, overdrafts and other loans:		
Repayable within five years, not by instalments	0	0
Repayable within five years, by instalments	0	0
Repayable wholly or partly in more than five years	78	0
	78	0
On finance leases	30	0
Pension finance costs (note 32)	0	0
Total	**108**	**0**

10 Taxation

	2011 £'000	2010 £'000
United Kingdom corporation tax at 21 per cent	12	12
Provision for deferred corporation tax in the accounts of the subsidiary company	0	0
Total	**12**	**12**

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

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

	2011 £'000	2010 £'000
College's (deficit)/surplus for the period	(9,944)	856
Surplus generated by subsidiary undertakings and transferred to the College under gift aid/deed of covenant	30	30
Total	**(9,914)**	**886**

12 Tangible fixed assets (Group)

	Land and buildings		Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2010	75,117	150	10,587	85,854
Additions	12,981	0	3,672	16,653
Surplus on revaluation	4,500	0	0	4,500
Disposals	(18,000)	0	(81)	(18,081)
At 31 July 2011	**74,598**	**150**	**14,178**	**88,926**
Depreciation				
At 1 August 2010	4,311	6	7,563	11,880
Charge for the year	1,287	3	2,748	4,038
Accelerated depreciation (Note 31)	xx		x	xx
Revaluation	(600)	0	0	(600)
Elimination in respect of disposals	(1,080)	0	(63)	(1,143)
At 31 July 2011	**3,918**	**9**	**10,248**	**14,175**
Net book value at 31 July 2011	**70,680**	**141**	**3,930**	**74,751**
Net book value at 31 July 2010	70,806	144	3,024	73,974

12 Tangible fixed assets (College only)

	Land and buildings		Equipment	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 August 2010	75,117	0	10,251	85,368
Additions	12,981	0	3,603	16,584
Surplus on revaluation	4,500	0	0	4,500
Disposals	(18,000)	0	(81)	(18,081)
At 31 July 2011	**74,598**	**0**	**13,773**	**88,371**
Depreciation				
At 1 August 2010	4,311	0	7,473	11,784
Charge for the year	1,287	0	2,706	3,993
Accelerated depreciation (Note 31)	xx		x	xx
Revaluation	(600)	0	0	(600)
Elimination in respect of disposals	(1,080)	0	(63)	(1,143)
At 31 July 2011	**3,918**	**0**	**10,116**	**14,034**
Net book value at 31 July 2011	**70,680**	**0**	**3,657**	**74,337**
Net book value at 31 July 2010	70,806	0	2,778	73,584

The transitional rules set out in FRS 15 Tangible Fixed Assets have been applied on implementing FRS

The net book value of equipment includes an amount of £204,000 (2009/10 – £216,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £12,000 (2009/10 – £13,500).

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

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

13 Investments

	College 2011 £'000	College 2010 £'000
Investments in subsidiary companies	6	6
Investments in associate companies	0	0
Total	**6**	**6**

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

14 Endowment assets

	Group £'000	College £'000
Balance at 1 August 2010	24,600	24,600
Additions (note 26)	5,100	5,100
Disposals (note 26)	(4,700)	(4,700)
Appreciation of endowment asset investments (note 21)	2,200	2,200
Decrease in cash balances held at fund managers	(350)	(350)
Balance at 31 July 2011	**26,850**	**26,850**
Represented by:		
Fixed interest stocks (listed)	2,600	2,600
Equities (listed)	15,200	15,200
Land and property	6,700	6,700
Cash balances (note 29)	2,350	2,350
Total	**26,850**	**26,850**

Land and property valuations as at 31 July 2011 have been made by senior management on the advice of firms of Chartered Surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

15 Debtors

	Group 2011 £'000	College 2010 £'000	Group 2011 £'000	College 2010 £'000
Amounts falling due within one year:				
Trade debtors	1,089	486	1,197	567
Amounts owed by group undertakings:				
Subsidiary undertakings	0	510	0	637
Associate undertakings	0	63	0	50
Prepayments and accrued income	81	57	93	63
Amounts owed by the Skills Funding Agency/[YPLA]	0	0	0	0
Total	**1,170**	**1,116**	**1,290**	**1,317**

16 Creditors: amounts falling due within one year

	Group 2011 £'000	College 2010 £'000	Group 2011 £'000	College 2010 £'000
Bank loans and overdrafts	225	225	0	0
Obligations under finance leases	36	36	36	36
Payments received in advance	447	447	414	414
Trade creditors	1,578	1,164	1,425	1,080
Amounts owed to group undertakings:				
Subsidiary undertakings	0	87	0	102
Associate undertakings	0	0	0	0
Corporation tax	12	0	12	0
Other taxation and social security	753	753	687	687
Accruals	687	654	1,071	1,023
Amounts owed to the Skills Funding	606	606	306	306
Total	**4,344**	**3,972**	**3,951**	**3,648**

17 Creditors: amounts falling due after one year

	Group 2011 £'000	College 2010 £'000	Group 2011 £'000	College 2010 £'000
Bank loans	4,275	4,275	0	0
Obligations under finance leases	126	126	162	162
Loans from subsidiary and associate	0	0	0	0
Total	**4,401**	**4,401**	**162**	**162**

18 Borrowings

(a) Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	Group 2011 £'000	College 2010 £'000	Group 2011 £'000	College 2010 £'000
In one year or less	225	225	0	0
Between one and two years	225	225	0	0
Between two and five years	900	900	0	0
In five years or more	3,150	3,150	0	0
Total	**4,500**	**4,500**	**0**	**0**

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

(b) Finance leases

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

	Group 2011 £'000	College 2010 £'000	Group 2011 £'000	College 2010 £'000
In one year or less	36	36	36	36
Between two and five years	126	126	162	162
In five years or more	0	0	0	0
Total	**162**	**162**	**198**	**198**

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

19 Provisions for liabilities and charges

	Group and College			
	Restructuring	**Enhanced**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 August 2010	894	699	531	2,124
Expenditure in the period	(90)	(47)	(531)	(668)
Transferred from income and	2,022	20	0	2,042
At 31 July 2011	**2,826**	**672**	**0**	**3,498**

The restructuring provision relates to the exceptional restructuring of costs arising from the closure of the Department of Media Studies which was announced in April 2011 and for which redundancy notices were served in June 2011. Other provisions relate to a legal obligation to carry out remedial pipework in the institution's leasehold building. This work will be completed during 2011/12.

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

	2011	**2010**
Price inflation	3.74%	3.74%
Discount rate	2.5%	2.5%

20 Deferred capital grants

	Group and College		
	Funding	**Other**	
	£'000	**£'000**	**£'000**
At 1 August 2010	9,012	150	9,162
Cash received	1,548	162	1,710
Released to income and expenditure account	(1,881)	(81)	(1,962)
Accelerated release of capital grants (note 31)	xx	xx	xx
At 31 July 2011	**8,679**	**231**	**8,910**

21 Endowments

	£'000 Unrestricted Permanent	£'000 Restricted Permanent	£'000 Total Permanent	£'000 Restricted Expendable	£'000 Total
At 1 August 2010	7,500	5,100	12,600	12,000	24,600
Net additions/disposals	0	40	40	60	100
Appreciation of	600	600	1,200	1,000	2,200
Income for year	300	150	450	350	800
Expenditure for year	(300)	(150)	(450)	(400)	(850)
At 31 July 2011	**8,100**	**5,740**	**13,840**	**13,010**	**26,850**

	£'000 Unrestricted Permanent	£'000 Restricted Permanent	£'000 Total Permanent	£'000 Restricted Expendable	£'000 Total
At 1 August 2009	7,100	4,700	11,800	10,750	22,550
Net additions/disposals	0	50	50	550	600
Appreciation of	400	350	750	700	1,450
Income for year	96	244	340	350	690
Expenditure for year	(96)	(244)	(340)	(350)	(690)
At 31 July 2010	**7,500**	**5,100**	**12,600**	**12,000**	**24,600**

22 Revaluation reserve

	Group 2011 £'000	College 2011 £'000	Group 2010 £'000	College 2010 £'000
At 1 August	59,286	59,286	60,717	60,717
Revaluations in the period (as per note 12)	5,100	5,100	0	0
Transfer from revaluation reserve to general				
Disposals	(16,920)	(16,920)	0	0
Depreciation on revalued assets	(1,416)	(1,416)	(1,431)	(1,431)
Accelerated release of revaluation reserves				
At 31 July	**46,050**	**46,050**	**59,286**	**59,286**

23 Movement on general reserves

	Group 2011 £'000	College 2011 £'000	Group 2010 £'000	College 2010 £'000
Income and expenditure account reserve				
At 1 August	10,233	10,158	10,332	10,287
(Deficit)/surplus retained for the year	(9,864)	(9,894)	886	856
Transfer from revaluation reserve	18,336	18,336	1,431	1,431
Actuarial loss in respect of pension scheme	(2,806)	(2,806)	(2,416)	(2,416)
At 31 July	**15,899**	**15,794**	**10,233**	**10,158**
Balance represented by:				
Pension reserve	**(1,460)**	**(1,460)**	**1,440**	**1,440**
Income and expenditure account reserve	**17,359**	**17,254**	**8,793**	**8,718**
At 31 July	**15,899**	**15,794**	**10,233**	**10,158**

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

	2011 £'000	2010 £'000
(Deficit)/surplus on continuing operations after depreciation of assets	(9,902)	898
Depreciation (notes 1 and 12)	4,038	2,802
Deferred capital grants released to income (note 20)	(1,962)	(1,860)
(Loss)/profit on disposal of tangible fixed assets	9,426	0
Interest payable (note 9)	108	0
Interest receivable (note 5)	(2,003)	(1,437)
FRS 17 pension cost less contributions payable (notes 6 and 32)	347	333
FRS 17 pension finance income (note 5)	(253)	(652)
(Increase)/decrease in stocks	0	0
(Increase)/decrease in debtors	120	93
Increase/(decrease) in creditors	168	234
Increase/(decrease) in provisions	1,374	363
Net cash inflow from operating activities	**1,461**	**774**

25 Returns on investments and servicing of finance

	2011 £'000	2010 £'000
Income from endowments	800	0
Other interest received	1,203	1,437
Interest paid	(78)	0
Interest element of finance lease rental payment	(30)	0
Net cash inflow from returns on investment and servicing of	**1,895**	**1,437**

26 Capital expenditure and financial investment

	2011	2010
	£'000	£'000
Purchase of tangible fixed assets	(16,653)	(7,476)
Payments to acquire endowment assets	(5,100)	0
Sales of tangible fixed assets (see note 30)	7,512	0
Receipt from sale of endowment assets	4,700	0
Deferred capital grants received	1,710	1,113
Endowments received	100	0
Net cash outflow from capital expenditure and financial investment	**(7,731)**	**(6,363)**

27 Management of liquid resources

	2011	2010
	£'000	£'000
Sale of investments	0	0
Withdrawals from deposits	1,500	0
Purchase of investments	0	0
Placing of deposits	0	0
Movement in endowment assets	350	0
Net cash inflow from management of liquid resources	**1,850**	**0**

28 Financing

	2011	2010
	£'000	£'000
Debt due beyond a year:		
New unsecured loans repayable by 2026	4,500	0
Repayment of amounts borrowed	0	0
Capital element of finance lease rental payments	(36)	(36)
Net cash inflow/(outflow) from financing	**4,464**	**(36)**

29 Analysis of changes in net funds

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

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

30 Cash flow relating to exceptional items

	2011	2010
	£'000	**£'000**
Provision as at 1 August	0	0
Income and expenditure account charge	1,551	0
Operating cash outflow	0	0
Provision as at 31 July	**1,551**	**0**

The operating cash outflows do not include an outflow of £1,551,000 for exceptional restructuring costs

31 Major non-cash transactions

A) Property strategy costs

	2011 £'000	2010 £'000
Accelerated depreciation charges (note 12)	xxx	xxx
Release of capital grants related to the accelerated depreciation	(xx)	(xx)
Net charge for the year	**xxx**	**xxx**

[Illustrative text to be adapted for the specific circumstances of each college]
In xxx 2009 the College received LSC consent and approval in principle for its property strategy. Relevant planning approvals had already been obtained in xxx 2009 and indicative financing arrangements have been agreed with the College's bankers to meet the level of borrowing set by the LSC's affordability criteria.
The strategy involves the demolition and rebuilding of the majority of the existing buildings at the XXX campus, with an anticipated completion date of xxx 2012.As a result it has been determined that the remaining net book value of the affected buildings should be eliminated over the period to 2012, a shorter useful economic life that was previously estimated, generating an annual accelerated depreciation charge of £xxx,000. The release of capital grants associated with the affected buildings has also been accelerated.
In line with the guidance provided by the LSC in the 2009/10 Accounts Direction Handbook, the accelerated depreciation and associated grant release have been presented separately from the remainder of the income and expenditure of the College. This presentation is necessary to better deliver a true and fair view of the results of the College for the year. Exceptional items as defined by FRS 3 paragraph 20 continue to be recorded after the operating surplus or deficit of the College.
Where appropriate, an additional release of the revaluation reserve relating to the accelerated depreciation has been made to the Income and Expenditure Reserve (notes 22 and 23).

B) Restructuring costs

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

C) Revaluation of property

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

32 Pension and similar obligations

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

Total pension cost for the year		**2011 £000**		**2010 £000**
Teachers Pension Scheme: contributions paid		989		1,490
Local Government Pension Scheme:				
Contributions paid	178		163	
FRS 17 charge	347		333	
Charge to the Income and Expenditure Account		525		496
Enhanced pension charge to Income and Expenditure Account (staff costs)		0		0
Total Pension Cost for Year		**1,514**		**1,986**

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010.
[There were no outstanding or prepaid contributions at either the beginning or the end of the financial year/Contributions amounting to £xxx,000 (2010 £xxx,000) were payable to the scheme at 31st July and are included within creditors.]

Teachers' Pension Scheme

The TPS is an unfunded defined benefit scheme. Contributions on a "pay-as-you-go" basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.
The pensions cost is normally assessed not less than once every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation (under the new provisions)	31 March 2004
Actuarial method	Prospective benefits
Investment returns per annum	6.5 per cent per annum
Salary scale increases per annum	5.0 per cent per annum
Notional value of assets at date of last valuation	£162,650 million
Proportion of members' accrued benefits covered by the notional value	98.88 %

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 August 2010 to 31 July 2011 the employer contribution was 14.1 per cent. The employee rate was 6.4% for the same period. An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme.
Accordingly, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The College has set out above the information available on the scheme and the implications for the College in terms of the anticipated contribution rates.

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 July 2011 was £285,000, of which employer's contributions totalled £178,000 and employees' contributions totalled £107,000. The agreed contribution rates for future years are 17.3 per cent for employers and 6 per cent for employees.

FRS 17

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2010 updated to 31 July 2011 by a qualified independent actuary

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

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 July	At 31 July
Retiring today		
Males	21.2	18.9
Females	24.0	21.8
Retiring in 20 years		
Males	22.4	19.9
Females	25.1	22.8

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

	Long-term rate of return expected at 31 July 2011	**Value at 31 July 2011 £'000**	**Long-term rate of return expected at 31 July 2010**	**Value at 31 July 2010 £'000**
Equities	8.0%	7,475	8.0%	8,123
Bonds	5.9%	2,304	6.0%	2,495
Property	7.2%	1,152	7.2%	1,248
Cash	4.5%	572	4.5%	637
Total market value of assets		**11,503**		**12,503**
Present value of scheme liabilities				
- Funded		(12,963)		(11,063)
- Unfunded		0		0
Related deferred tax liability		0		0
Surplus/(deficit) in the scheme		**(1,460)**		**1,440**

Analysis of the amount charged to income and expenditure account

	2011 £'000	**2010 £'000**
Employer service cost (net of employee contributions)	388	369
Past service cost	137	127
Total operating charge	**525**	**496**

Analysis of pension finance income / (costs)

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

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

	2011 £'000	**2010 £'000**
Actuarial gains/losses on pension scheme assets	(2,203)	(1,876)
Actuarial gains/losses on scheme liabilities including CPI credit of £nil (2010 £xx,000)	(603)	(540)
Actuarial loss recognised in STRGL	**(2,806)**	**(2,416)**

Movement in surplus/(deficit) during year

	2011 £'000	2010 £'000
Surplus/(deficit) in scheme at 1 August	1,440	3,537
Movement in year:		
Employer service cost (net of employee contributions)	(388)	(369)
Employer contributions	178	163
Past service cost	(137)	(127)
Net interest/return on assets	253	652
Actuarial gain or loss	(2,806)	(2,416)
(Deficit)/Surplus in scheme at 31 July *	**(1,460)**	**1,440**

Asset and Liability Reconciliation

	2011 £'000	2010 £'000
Reconciliation of Liabilities		
Liabilities at start of period	11,063	9,340
Service cost	388	369
Interest cost	664	582
Employee contributions	107	105
Experience gains and losses on scheme liabilities	293	250
Actuarial (gain)/loss	310	290
Benefits paid	1	0
Past Service cost	137	127
Curtailments and settlements	0	0
Liabilities at end of period*	**12,963**	**11,063**

Reconciliation of Assets

	2011	2010
Assets at start of period	12,503	12,877
Expected return on assets	917	1,234
Actuarial gain/(loss)	(2,103)	(1,876)
Employer contributions	178	163
Employee contributions	107	105
Benefits paid	0	0
Assets at end of period	**11,503**	**12,503**

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

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

History of experience gains and losses

	2011	2010	2009	2008	2007
Difference between the expected and actual return on assets:					
Amount £'000*	(2,203)	(1,876)	(1,104)	(521)	(125)
Experience gains and losses on scheme liabilities:					
Amount £'000*	(293)	(250)	(150)	(40)	(11)
Total amount recognised in STRGL:					
Amount £'000*	(2,806)	(2,416)	(1,498)	(700)	(210)

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

33 Post-balance sheet events

a) College merger

On 1 August 2011 the College merged its activities with those of Wessex College of Agriculture. At that date all assets, liabilities and activities of Wessex College transferred to Casterbridge College and Wessex College was dissolved. All activities are continuing within the merged College. Assets valued at £1,300,000 and liabilities (£1,020,000) and an operating surplus on activities of £50,000 were transferred.

b) Investment returns

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

34 Capital commitments

	Group and College	
	2011	**2010**
	£'000	**£'000**
Commitments contracted for at 31 July	2,703	2,691
Authorised but not contracted at 31 July	NIL	NIL

35 Financial commitments

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

	Group and College	
	2011	2010
	£'000	£'000
Land and buildings		
Expiring within one year	0	0
Expiring within two and five years inclusive	0	0
Expiring in over five years	0	0
	0	0
Other		
Expiring within one year	6	6
Expiring within two and five years inclusive	15	15
Expiring in over five years	3	3
	24	24

36 Contingent liability

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

37 Related party transactions

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

PQR Limited – an associate of Casterbridge College

Purchase transactions in the year amounted to £20,000 (2010 – £15,000). There were no balances outstanding at the year end (2010 – £nil)

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

Transactions totalling £101,000 (2010 - £nil), relating to the purchase of specialist equipment took place. There were no amounts outstanding (2010 - £nil).

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

38 Amounts disbursed as agent

	2011	2010
Funding body grants – hardship support	283	274
Funding body grants – childcare	23	22
Funding body grants – residential bursaries	15	14
Other Funding bodies grants	2	0
Interest earned	5	6
	328	316
Disbursed to students	(260)	(308)

Staffing	(38)	–
Administration costs	(7)	(6)
Audit fees	(3)	(2)
Amount consolidated in financial statements	(20)	–
Balance unspent as at 31 July, included in creditors	–	–

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

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

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General Accounting Policies and Components of the Financial Statements

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

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

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

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

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

5.5 The related reports should include the following:

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

The Operating and Financial Review (OFR)

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

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

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

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

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

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

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

(a) the development, performance and operation of the business and operation of the institution during the financial year;

(b) the position of the institution at the end of the year;

(c) the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and

(d) the main trends and factors which are likely to affect the institution's future development, performance and position.

The OFR should:

(a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);

(b) focus on matters that are relevant to the interests of *funders and financial supporters*;

(c) have a forward-looking orientation, identifying those trends and factors relevant to the *funders and financial supporters*' assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;

(d) complement as well as supplement the *financial statements*, in order to enhance the overall corporate disclosure;

(e) be comprehensive and understandable;

(f) be balanced and neutral, dealing even-handedly with both good and bad aspects; and

(g) be comparable over time.

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

(a) the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;

(b) the development and performance of the institution, both in the financial year under review and in the future;

(c) the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and

(d) the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.

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

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

Table 5.1: Outline of illustrative Casterbridge College annual report

Heading in model Casterbridge College annual report	Disclosure requirements*
Nature, Objectives and strategies	
Legal status	Mandatory
Mission	Optional

Heading in model Casterbridge College annual report	Disclosure requirements*
Implementation of strategic plan	Optional
Financial objectives	Optional
Performance indicators	Optional
Financial position	
Treasury Management	Optional
Cash flows	Optional
Liquidity	Optional
Going Concern including future financial performance as appropriate	Optional
Current and Future Developments	Optional
Student numbers	Optional
Student achievements	Optional
Curriculum developments	Optional
Post balance sheet events	Optional
Payment performance	Optional
Competitive environment	Optional
Environmental issues	optional
Resources	
Principal risks and uncertainties	
Stakeholder relationships	
Equal opportunities and employment of disabled persons	Optional
Disability statement	Mandatory
Disclosure of information to auditors	Mandatory
Professional advisors	Optional
Corporate governance statement (including list of governors who served on board during year)	Mandatory
Statement of the responsibilities of the corporation members	Mandatory
Public Benefit Test	Optional

*"Optional" in these circumstances is intended to mean "indicative".

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

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

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

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

- legal status of the corporation
- an explanation of the strategy of the College, which should include the mission statement of the College, its objectives and the targets in its three-year development plan
- a review of the activities of the College (including its subsidiary undertakings if applicable) in the context of its strategy, including significant changes, developments and achievements in the past year, events affecting those activities since the year end and plans for the future
- a statement of the College's financial objectives and assessment of its financial performance during the accounting period. If the College has net current liabilities, then there should be an explanation of why this is the case and what action is being taken
- a disability statement. Whilst a statement is required, it is not necessary to copy word for word the example provided in the model Casterbridge College members' report. However, it will be important to the users of the accounts if the College states whether the statement complies with the Disabilities Discrimination Act 1995 as updated by the Special Education Needs and Disability Acts of 2001 and 2005.
- a statement of the responsibilities of the corporation members

- a corporate governance and internal control statement including a list of the governors who served on the board during the year. This statement should confirm that the major risks to which the College is exposed, as identified by the corporation, have been reviewed and systems have been established to mitigate those risks.

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

Notes to the Financial Statements

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

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

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

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

- subsidiary undertakings.

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

- the period of account
- more detailed information relating to the income and expenditure account
- explanation of any exceptional items and their presentation in the accounts
- employee numbers and costs
- emoluments of the College's senior post-holders and members*
- compensation for loss of office paid to senior post-holders
- taxation
- details of tangible fixed assets and depreciation
- details of fixed asset investments
- details of endowment assets
- stocks
- details of cash in bank held for future fixed-asset investments
- analysis of debtors and creditors
- details of all provisions for liabilities and charges**
- details of deferred grants
- financial commitments and contingencies***
- details of pension schemes, including FRS 17 (revised) *Retirement Benefits* disclosures
- details of post balance sheet events
- details of the notes to the cash flow statement
- details of subsidiaries consolidated into the accounts
- the name of any subsidiary excluded from the consolidation and the reasons for its exclusion, the aggregate capital and reserves at the subsidiary's most recent financial year end and its profit or loss for that year
- auditors' remuneration for external audit, internal audit and other services, split between internal and external audit****
- details of related party transactions
- an analysis of the grant and subsequent reimbursement of access funds.

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

Secretary of State for Education and Skills. Members may receive reimbursement for reasonable expenses.

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

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

**** The Companies (Disclosure of Auditor Remuneration) Regulations 2005 are effective for companies for periods starting on or after 1 October 2005 and require disclosure of audit fees and extensive disclosure of remuneration receivable by the auditor and its associates for other services. Reference should be made to these Regulations for the appropriate level of disclosure both in the consolidated accounts of the College regardless of its corporate structure and in subsidiary company accounts where relevant.

Corresponding Amounts

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

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

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

Accounting Standards

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

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

appropriate. This is particularly important when considering the alternative presentation of property strategy costs outlined in the model Casterbridge College accounts.

Substance over Form

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

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

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

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

5.23 In September 1998, the Accounting Standards Board (ASB) published an amendment to FRS 5 in the form of an application note on transactions subject to the Private Finance Initiative (PFI). It sets out guidance on which of the parties to a PFI transaction should record the relevant asset(s) on its balance sheet. Colleges that have entered into PFI transactions, or that intend to do so, will need to comply with this amendment to FRS 5. Colleges may wish to consult their financial statements auditor on this matter.

Financial Reporting Standard for Smaller Entities

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

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

- Directors' emoluments and staff costs and numbers should be fully disclosed in accordance with the guidance for Colleges set out in Chapter 4 of this Handbook

- Details of any activities which take place outside England and the nature of any transactions with organisations outside England should be given.
- Full disclosure should be made of the subsidiary undertaking's related party transactions in accordance with FRS 8 *Related Party Disclosures*

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

Income and Expenditure Account 5.26 The notes to Colleges' financial statements should provide further information about each of the income and expenditure figures shown on the face of the income and expenditure account. ***Illustrative examples*** are provided in the model Casterbridge College accounts. Detailed guidance on key disclosures is set out below.
5.27 Income is split into funding council grants, tuition fees and education contracts, research grants and contracts, other income-generating activities, catering, residence and conferences, farming, investment income and other income, in order to determine the dependency of a College on particular sources of income.
5.28 Expenditure is split into staff costs, other operating expenses, depreciation, interest payable and any exceptional costs. Where the gain arising from the change to using CPI as an index for measuring future pension liabilities was recognised in the Income and Expenditure account, then this should be clearly disclosed either on the face of that statement (where material) adjacent to staff costs, or in the staff costs note to the accounts.
Depreciation 5.29 This should match the depreciation charge for the year indicated by the note in the financial statements on tangible fixed assets, subject to the alternative, separate, presentation of accelerated depreciation.
Cash Flow Statement 5.30 This schedule calculates a cash flow statement, as required by FRS 1 *Cash Flow Statements (revised 1996)*. The entries on this form are as follows:
• Cash is regarded as cash-in-hand, deposits and overdrafts repayable on demand (under one working day's notice).
• Liquid resources are (readily disposable) current asset investments. They are capable of disposal without disrupting the business and are either traded in an active market or readily convertible into known amounts of cash. Liquid resources include items such as money market deposits, listed investments and local authority bonds.
• Net debt is defined as borrowings under FRS 4 *Capital Instruments*, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans.

• An additional section on management of liquid resources is included in the cash flow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments.
• The standard requires a separate reconciliation of net cash flow to movement in net debt.
Note 2 Funding Body Income 5.31 The purpose of this analysis is to ensure that all individual grants given for specific purposes are identified in a College's financial statements sufficient to satisfy the requirements of FRS 8 *Related Party Transactions* and are covered by the financial statements auditor's opinion.
5.32 The minimum analysis may need to vary from year to year to provide users of the accounts with enough information to understand the activities of the College.
5.33 The note should provide sufficient information to allow the reader to understand the major types of income received from each funding body, whether this income is received through a direct funding arrangement or through a third party organisation (often termed "managing agents"). It will include as a minimum:
a appropriate funding body income:
recurrent grant – allocation
non recurrent grant income as a total
release of capital grants – this line matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants)
b HEFCE income:
recurrent grant – include income received direct from HEFCE for prescribed HE, including that transferred from the appropriate funding body
non recurrent grant income
release of capital grants
c Grants from other Funding bodies, such as the Training and Development Agency for Schools
5.34 Where the ultimate source of a material income stream is the funding bodies, then it is preferred that such income be shown within Note 2 regardless of whether it is earned directly or through a subcontract arrangement. ***This may include:***
Work Based Learning
Train To Gain income as a consortium member or subcontractor
Co Financed income

5.35 This presentation of relevant funding bodies' sourced income aligns the financial statements more closely with the Finance Record and reduces the level of inconsistency found in Colleges' accounts. For the avoidance of doubt, the existing treatment of HE income which may also be derived through a direct contract with HEFCE or through a franchise arrangement with a partner university, will continue such that the recurrent grant is shown in Note 2 but the franchised–in income should be presented in Note 3, Education contracts. Again, this enables a closer alignment with the existing finance Record requirements.

Adjustments to recurrent funding

5.36 In some cases, following receipt by the appropriate funding body of an audited learner record claim, a College's recurrent funding for prior years may be adjusted in excess of the estimates included in their audited financial statements. Such further adjustment will be included in appropriate funding body grants on the face of the income and expenditure account and may need to be separately disclosed in the notes to the accounts where significant to the understanding of the accounts.

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

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

Exceptional support funding

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

5.40 In most cases (***unless the terms and conditions indicate otherwise***), exceptional funding support for Colleges in recovery should be recognised as income in the College financial year in which it is received and disclosed in Note 2 *Funding Body Grants* to the financial statements. These funds are typically provided to cover significant restructuring costs and to reset weakened cash positions. The College will usually have an absolute right to the consideration and hence be able to recognise them immediately. If the amount is material to a College's financial statements, then it should be shown separately instead on the face of the income and expenditure account in accordance with FRS 3 *Reporting Financial Performance*. Colleges will need to discuss the disclosure of such grants with their financial statements auditors.

5.41 The terms and conditions of the exceptional funding support package may indicate that the appropriate funding body will recover this funding, if these terms and conditions are not met. Where this is the case, the College should show the funding as a contingent liability. Colleges will need to discuss the appropriate treatment with their financial statements auditors.

5.42 Merger support funding on the other hand was often provided to fund a specific budget at an agreed intervention rate. The costs behind this budget were expected to be typically incurred over a period greater than one year and Colleges would want to try and match the income against the costs as far as possible. Where the costs were incurred substantially within the same period as the receipt of the associated support funding then both should have been recognised immediately and in full. Separate disclosure of the amounts may have been required on the face of the Income and Expenditure accounts where the amounts are significant. Where the costs were incurred over a period of time beyond one year, the College should be recognising the income in proportion to the original intervention rate based on the submitted budget. Any overspends of costs against budget should be dealt with as they arise and not either anticipated or deferred.

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

Note 3 Tuition Fees and Education Contracts

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

- Tuition fees*
- Education contracts

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

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

5.46 Colleges should note the additional information in Paragraphs 5.34 and 5.35 above which requires appropriate funding body income, whether direct or indirectly contracted for by the College, to be presented within Note 2.

Note 4 Research Grants and Contracts

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

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

- other funds – this will include income from the post-16 partnership funds and the Skills Development Fund, and all income in respect of research carried out by the College.

Other Income

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

Note 5 Endowment and Investment Income

5.49 This will include:

- investment income – include any other investment income earned, such as income from the investment of short-term funds and the realisation of investments held as long-term funds. Do not include interest that will be shown at line 5b. Income derived from investment assets held for restricted (specific) purposes imposed by the donor or funder will normally be recognised in the income and expenditure account in full as a credit on a receivable basis. Any endowment income earned in excess of that applied to the restricted (specific) purpose should be transferred from the income and expenditure account after the result for the year has been struck to accumulated income within endowment funds in the balance sheet.

- interest received and receivable – include interest from all sources.

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

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

Note 6 Staff Costs 5.51 Staff costs will include basic payroll costs, overtime and other allowances and additions, employers' superannuation costs, employers' national insurance contributions, premature retirement costs and redundancy costs. It should include full-time and part-time staff, temporary staff and those on fixed-term contracts. Do not include reimbursement of expenses paid via the payroll – for completeness in the Financial Statements they should be treated as non-staff costs. Contracted tuition services should continue to be included as the pay costs of agencies used for providing tuition services.
5.52 The previous requirement to analyse costs over department headings has been removed to reduce the disclosures to teaching and non teaching staff FTE numbers only as a minimum disclosure. As before, Colleges may expand the analysis to suit their own circumstances and may wish to consider the impact of restructuring costs, FRS 17 and contracted out tuition services as additional levels of disclosure as appropriate.
FRS 17 staff cost adjustments (if required) 5.53 The additional FRS 17 charge for staff costs, such as the difference between employer contributions and current service costs and past service costs or gains, ***may*** be shown as a figure, separate to other elements of staff costs, consistent with the finance record. Depending on how a College has assessed the level of constructive obligation in place, there may also have been a significant past service credit arising from the change in 2009/10 to using CPI as an index for measuring future pension liabilities which has been recognised in the Income and Expenditure account. If this is the case, the UITF Abstract No. 48 makes it clear that adequate disclosures to support that treatment should be made in the financial statements. Example narrative was circulated to Colleges in the Addendum dated 22 October 2010: *"In [its June 2010 budget / July 2010], the Government announced that it intended for future increases in [public sector/ occupational] pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The College has considered the [LGPS / College scheme name] scheme rules and associated members' literature and has concluded that [this change is a change in benefits and so has recognised the resulting credit in the Income & Expenditure account / as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL')]. At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue a final Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change as a prior period adjustment in the financial statements for the following year".* With the publication of the Final Abstract in December 2010, Colleges should review that treatment and the disclosures made and consider whether any changes are necessary to reflect as Prior Period Adjustment.

Higher paid staff

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

Note 7: Senior Post-holders' Emoluments

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

- the emoluments of the Principal. Where there has been more than one Principal during the course of the year, the emoluments should be disclosed separately.
- the aggregate emoluments of the College's senior post-holders (see 5.62 below)
- the aggregate emoluments of the corporation's members
- the emoluments of the highest paid senior post-holder, if not the Principal
- emoluments due to a senior post-holder but waived by the post-holder
- the number of senior post-holders (in bands of £10,000), including the Principal (this information may be combined with similar information for all higher paid staff)
- the aggregate amount of any compensation paid to senior post-holders or past senior post-holders for loss of office
- the number of post-holders who have been paid such compensation.

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

5.57 "Senior post-holders' emoluments" means emoluments paid to, or receivable by, any person for:

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

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

• fees
• any expense allowances (to the extent that they are chargeable to UK income tax)
• contributions ***paid*** for the senior post-holder under a pension scheme
• the estimated money value of any benefits received other than in cash
• emoluments for any person accepting office as a senior post-holder.
Note – the emoluments above do not include any adjustments arising from FRS 17 otherwise included within the staff costs note
5.59 Senior post-holders' emoluments should not include the employer's national insurance contributions. Compensation for loss of office is a category of payment different from an "emolument". Consequently, it should not be included in that person's emoluments for banding purposes. Compensation for loss of office includes:
• any amount paid in connection with a senior post-holder's retirement
• the estimated monetary value of benefits received or receivable other than in cash and, where compensation is given in kind, disclosure of its nature
• any top-up or enhancement to the pension scheme.
5.60 The normal remuneration salary of staff governors who are not senior post-holders does not need to be disclosed separately.
5.61 If more than one person has held the post of Principal during the year, each such person's total emoluments for the year must be attributed to that part of the year during which they were Principal, and these amounts must be disclosed separately.
5.62 The disclosure of the Principal's and other senior post-holders' emoluments set out in Note 7 to the model financial statements has been amended to show the analysis between:
• salaries
• benefits in kind
• pension contributions paid
5.63 The figures are analysed as above in response to comments from users of Colleges' accounts that disclosure of only the total figures gave a misleading impression of the actual salaries of Principals and senior post-holders.

Severance payments

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

Governors' expenses

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

Note 8 Other Operating Expenses

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

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

Teaching costs

5.68 This item will include:

- revenue expenditure on teaching and demonstrating, including teaching materials and consumables, teaching equipment purchase and maintenance, printing and stationery, teaching transport and field trip costs
- any costs associated with teaching-related activities such as training restaurants, hairdressing and beauty salons, as the income from these should be credited to the teaching function
- any advertising, promotional and marketing expenditure charged to teaching departments
- any commercial non-core costs, including the commercial use of teaching facilities (for example sports halls), managing agency administration expenditure, expenditure associated with consultancy projects, or other commercial activities charged to teaching departments
- prison contracts and partnerships.
- library – collections of learning support materials such as books, periodicals, slides and video tapes, and including learning support centres if these are organised under the control of the College library

- computer and resource-based learning centres – the provision of computing facilities for the learner body as a whole. The running costs of administrative computers and charges for the administrative use of a central computer will be shown under Line 4 and not here
- additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme, in order to help an individual learner to complete his or her learning programme. This could include the cost of a diagnostic assessment, specialist support, transport between College sites and materials. Equipment purchases will not be included here
- learner guidance on enrolment
- any non-pay recharge from the Learner Support Fund
- payment to student unions
- recreation services such as non-curricular music, drama and sport
- medical services
- learner services such as careers advisory services, welfare services and specific charges for counselling
- learner transport.
- staff training (including costs of seminars)
- print services
- expenditure on facilities such as theatres and galleries, except those run by teaching departments
- curriculum-development costs
- nursery and work placements.

Non teaching costs

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

- revenue costs of administrative computing
- bank charges (excluding interest charges)
- legal and audit fees
- insurance premiums other than buildings insurance, which should be included in premises costs
- travel and subsistence costs of the principalship and administrative staff

- recruitment costs, surveyors' fees, postage, telephones, subscriptions and payroll services
- copyright licence, revenue-running costs of payroll, central licences
- administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.
- marketing costs such as overseas learner recruitment costs, publicity and promotion, including course advertising, prospectuses, market research, except where these are charged directly to College teaching departments
- examination costs

Premises

5.70 This will include:

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

Payments to non-College E2E partners

5.71 As before, where a College considers it necessary for the better understanding of the accounts, then costs associated with for example payments to non-College E2E partners, should be disclosed separately.

Alternative presentation of results under a property strategy

5.72 Following discussions with sector representatives it has been determined that the interests of the true and fair view for a College's financial statements would also be best served if the ***material*** items associated with an accommodation strategy such as accelerated depreciation following a revision to the estimated useful economic life of an asset, together with the associated capital grant releases, were presented after the surplus or deficit on continuing operations but ***before exceptional items and tax***. These are not impairment losses under FRS 11 and should not be described as such. They do however represent a disclosable override to the provisions of FRS 3.

Paramount within the above relaxation of the I&E presentation and the discussions in Chapter 6 is the desire from the funding bodies to see a consistency in approach across the sector towards the accounting for capital projects and the presentation of the results. Following a review of options, and using a typical College experience as a benchmark (such as that outlined in 6.114), the funding bodies believe that accelerated depreciation is the preferred approach to be taken but does not as a result preclude the use of formal impairments under FRS 11, where those can be demonstrated to applicable. Paragraphs 5.97 to 5.108 below summarise the key aspects of FRS 11.

The alternative presentation of transactions adapts the standard FRS 3 presentation but without breaking the key distinction regarding exceptional items being presented "above the line" unless covered by FRS3.20.

This is for both Colleges' and the funding bodies' benefit – in the latter case it provides audited figures that will be transferred to the Finance Record and used in the moderation of the financial health score of a College. For the former it will link to narrative explanations of the financial position of the College that will be found in the Operating and Financial Review.

It is expected that the use of this override will apply to transactions within the 2008/09 and 2009/10 financial statements only. It is not envisaged that it will be applicable in 2010/11 except insofar as it relates to prior period disclosures.

Exceptional items

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

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

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

- surplus or deficits on the sale or termination of an operation

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

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

Note 9 Interest and other finance costs

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

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

Note 10 Taxation

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

Note 12 Tangible Fixed Assets

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

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

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

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

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

5.84 Fixed assets include:

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

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

Initial measurement

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

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

- labour costs of own employees.

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

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

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

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

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

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

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

Valuation

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

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

Table 5.2: Treatment of revaluation gains and losses.

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

Depreciation

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

Disclosure

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

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

Impairment

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

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

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

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

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

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

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

c evidence of obsolescence or physical damage to the fixed asset

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

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

f a commitment by management to undertake a significant reorganisation

g a major loss of key employees; and

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

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

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

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

5.104 In summary, if no indicators of impairment are identified there is no requirement to carry out an impairment review. It should be noted though that the revision of the useful economic life often brought about under an accommodation strategy (discussed further in Chapter 6, section 114) does not necessarily result in an impairment and the consequent charges to the income and expenditure account should not be described as such. It is the preferred approach of the funding bodies that Colleges first consider the "accelerated depreciation" approach before considering whether the triggers in FRS 11 are applicable to their circumstances. This is based on the presumption that where Colleges inherited assets on incorporation, the majority also assumed that the buildings elements had a useful economic life of 50 years which in many cases has proved to be an overestimate. The need for an additional write down of the carrying value of those buildings is therefore judged be as a result of a clear consumption of economic benefits and as such should be charged to the Income and Expenditure account in the year in which it is identified.

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

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

5.107 In practice this means that for a typical College that inherited land and buildings and who took advantage of the transitional provisions of FRS 15 by freezing the value in 2000, an impairment not otherwise due to the clear consumption of benefits will be recognised wholly through the STRGL as the historical cost of the assets was nil.

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

Disposal of fixed assets

5.109 The profit or loss on disposal of a tangible fixed asset will be accounted for in the income and expenditure account of the period when the disposal occurs. It is the difference between the net sale proceeds and the carrying amount, whether carried at historical cost or valuation. Profit or losses on the disposal of fixed assets should be shown in accordance with paragraph 20 of FRS 3.

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

- inherited by Colleges on incorporation
- financed by exchequer funds
- financed from College's own resources.

Property Strategy costs and accounting impacts

5.111 Chapter 6 (paragraphs 6.98 to 6.128) discusses the accounting treatment for costs incurred on fixed assets, including the impact of a College's property strategy. Following discussions with Colleges and auditors, it has been agreed that a revised presentation of the impact of implementing a property strategy would be appropriate to maintain the true and fair view of the Income and Expenditure account and to this end only, such entries are now accumulated together separate from operational income and expenditure. The Casterbridge College example accounts in Chapter 4 include an illustration of this presentation and the associated notes that might be required to explain it. The illustration includes an expanded Note 31 regarding Major Non Cash transactions (see 5.186 below) to cover this though Colleges may wish to include the information earlier in the Notes and at the foot of the fixed asset note instead.

As explained in 5.186, the transactions expected to be included within this alternative presentation, should be unusual costs, not those that would have been incurred in the normal course of events or those that were postponed in anticipation of a successful rebuild.

Financial memorandum

5.112 The LSC required the board to obtain its consent for land and buildings transactions where the total cost exceeds £1.5 million or 5 per cent of the College's annual revenue, whichever is the greater amount (paragraph 24 of Part 1 of the Financial Memorandum published at November 2006). Where the transaction is a disposal or the renting or leasing of property to a third party, the College should seek to secure the best obtainable value for money.

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

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

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

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

Accounting treatment

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

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

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

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

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

In certain limited circumstances, the LSC previously agreed that affected Colleges could offset the restricted funds as above against the costs incurred in an incomplete property strategy, effectively investing those funds in the costs written off. Colleges should have discussed and agreed this accounting treatment with their regional funding body.

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

Accounting for leases

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

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

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

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

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

Leasehold property

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

Milk quotas

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

Note 14 Endowment Assets

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

Current Assets

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

Stocks

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

Long-term debtors

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

Current asset investments

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

Trustee Investment Act 1961

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

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

Trustee Act 2000

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

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

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

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

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

Related party transactions

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

Liabilities - Notes 16 and 17

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

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

Note 19 Provisions for liabilities

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

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

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

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

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

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

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

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

5.151 A restructuring provision does not include such costs as:

- retraining or relocating continuing staff
- marketing; or
- investment in new systems and distribution networks.

5.152 These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognised on the same basis as if they had arisen independently of a restructuring.

Disclosure

5.153 For each class of provision, an entity should disclose:

- the carrying amount at the beginning and end of the period
- additional provisions made in the period, including increases to existing provisions
- amounts used (that is, incurred and charged against the provision) during the period
- unused amounts reversed during the period
- the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

5.154 Comparative information is not required.

5.155 An entity should disclose the following for each class of provision:

- a brief description of the nature of the obligation, and the expected timing of any resulting transfers of economic benefits
- an indication of the uncertainties about the amount or timing of those transfers of economic benefits. Where necessary, in order to provide adequate information an entity should disclose the major assumptions made concerning future events
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Pension provisions

5.156 FRS 12 *Provisions and Contingencies* requires that provisions for staffing reorganisations should be recognised when – and only when – the entity is demonstrably committed to the reorganisation. An entity is demonstrably committed when it has a detailed plan for, and cannot realistically withdraw from, the reorganisation.

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

Enhanced pensions provisions

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

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

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

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

5.161 Colleges must use the tables supplied in calculating any provision for enhanced pension. ***The use of these tables is mandatory unless a more accurate estimate can be obtained from the College's actuaries.*** The tables were updated in 2010 for more recent mortality tables amongst other things and further updated versions for market indices will be issued shortly after the 31st July 2011 when these are known.

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

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

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

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

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

Enhanced pension (EPP) spreadsheet use and disclosures

5.165 The EPP spreadsheet was written as the CPI change issue was arising in 2009/10 and with the intention of replicating the previous format of the spreadsheet. In the CPI version, the resulting change in net liabilities was described as a STRGL movement but as the Handbook notes above, many EPP provisions are derived from previous restructuring rounds and as such could be deemed to be termination related benefits and accounted for under FRS 12. As such the movement in the provision would be taken through the I&E account in full and no part would be reported in the STRGL.

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

Disclosure requirements for assumptions:

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

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

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

Discount rate = Interest rate
Inflation = Interest rate less Net Interest rate

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

Expected Life Expectancy for someone aged 65 in 2009:

Males 21.73

Females 24.50

Expected Life Expectancy for someone aged 65 in 2019:

Males 22.71

Females 25.47

The above data are provided to assist colleges in making the appropriate disclosures in their accounts regarding key financial and other assumptions underpinning provision and for no other purpose. Updated indices will be published separately as soon after the 31st July 2011 as is practicable.

Note 20 Deferred Capital Grants

Accounting for grants

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

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

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

Capital funding from recurrent funds

5.170 Up to 31 July 2001 Colleges were required to spend at least 2 per cent of their funding allocation for capital purposes. This element of the funding would be matched against the related purchase. Thus, if the grant was spent on an asset which was capitalised, the grant would be treated as a deferred capital grant and be released to the income and expenditure account over the life of the relevant asset. If the grant was spent for capital purposes but not on an item that would normally be capitalised (for example on an item costing less than the institution's capitalisation limit or certain minor works), it would be released to the income and expenditure account from the deferred capital grant immediately.

5.171 From 1 August 2001 the LSC no longer required institutions to spend an amount of their funding allocation for capital purposes. The amount of the funding allocation that an institution receives should be charged to the income and expenditure account. If an institution wishes to continue to allocate an amount of their funding allocation for capital purposes then this should be funded from their cash reserves. The accounting treatment should be as in Table 5.3 below.

Table 5.3: Accounting treatment of allocations of capital funding.

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

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

Arrangements for capital support for major works up to March 1999

5.173 Up to March 1999, Colleges could apply to the FEFC for financial support towards capital projects costing more than £100,000. If a College's application was supported, the first year's support was calculated on the basis of a notional annuity loan over 15 years at a notional rate of interest determined from time to time by the FEFC. From the second year onwards, the annual payments would decline in line with the core percentage (currently 90 per cent of a College's main funding allocation for the previous year). The majority of Colleges opted to commute these payments to a lump sum in 2003/04 with the balance of Colleges being paid out during 2010/11.

Arrangements for capital support for major works from April 1999

5.174 Since April 1999 there have been new arrangements under which Colleges could apply for funding body support towards capital projects costing more than £100,000. The amount of support available was originally 35 per cent of eligible project costs, which was usually payable over three years following practical completion. This assumed starting point of 35% was modified by Circular 03/13 in 2003/04 such that grants were assessed more strictly against affordability, with a minimum level of grant support of 10%. The Capital Handbook November 2006 reinforced this with emphasis on agreeing an appropriate starting point with the regional PFM team and a financial plan that returns the College to financial health group A or a strong group B by the third year after substantive completion of the project.

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

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

5.177 Capital grant consent letters to Colleges should be checked by financial statements auditors for compliance with the financial memorandum.

Consent Only Projects

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

One-off grant

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

Significant donations used for capital purposes

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

Note 21 Endowments

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

5.182 The 2007 SORP introduced new terminology concerning endowments and charitable donations (paragraphs 132 to 158 inclusive) and Colleges should refer to the detailed guidance contained therein when drafting their 2010 accounts.

Note 22 Revaluation Reserves

5.183 The amount by which tangible fixed assets were revalued, adjusted for sums released to the income and expenditure account and unrealised gains and losses. Where material to the understanding of the accounts, any amounts released relating to accelerated depreciation charges (see Chapter 6.114) should be disclosed separately within the note.

Other Reserves

Restricted reserves

5.184 The value of funds earmarked for specific purposes that cannot be used at the discretion of the governors for any other purpose – for example, charitable bequests. The funding bodies would now only expect to see a restricted reserve in extremely limited circumstances; for example, in respect of a prize fund.

Note 31 Major Non Cash Transactions

5.185 As noted above, Colleges may find it beneficial to separately present the material entries regarding the implementation of a property strategy. These entries might include:

- accelerated depreciation charges
- accelerated releases of Deferred capital grants associated with that depreciation
- professional fees not capitalised associated with a major refocus of the strategy
- the write off of fees previously capitalised but now deemed no longer to have an enduring benefit to the strategy.

These items are not "exceptional" as defined by FRS 3.20 and so are still included before the operating result of the College. This is as an alternative to including them within the normal accounts heading and within the relevant note to that heading.

Note 31 to the Casterbridge College accounts has been expanded to include an illustration of the disclosures that might be appropriate here. Colleges may wish to include the relevant narrative at the foot of the fixed asset table instead though.

It should be noted that the purpose of this alternative presentation is to draw out the transactions associated with an ongoing property strategy. It is not intended that these include the regular revision of a property strategy, planned maintenance costs, additional maintenance costs where a delayed strategy has meant that the originally deferred costs now become essential, or similar items.

Note 32 Pensions and Similar Obligations

Teachers' Pension Scheme

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

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

Valuation of the Teachers' Pension Scheme

5.188 At least once every four years, the Government Actuary, using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The cost of pensions increases is excluded from the valuation and, consequently, neither teachers nor their employers contribute to this added value. The last published valuation of the TPA was at 31 March 2004 and published in November 2006. The next valuation, due at end of March 2008, has not yet been published.

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

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

Local Government Pension Scheme (LGPS)

5.191 The impacts of FRS 17 on the disclosures required for the LGPS are set out in Chapter 6, paragraphs 6.127 to 6.171.

Note 33 Post-balance Sheet Events

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

Note 36 Contingent Liabilities

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

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

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

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

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

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

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

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

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

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

Note 37 Related Party Disclosures

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

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

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

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

- subsidiary undertakings
- its associates and joint ventures

- the investor or venturer in respect of which the reporting entity is an associate or joint venture
- directors of the reporting entity
- pension funds for the benefit of employees of the reporting entity, or of any entity that is a related party of the reporting entity.

5.202 The following are presumed to be related parties (unless it can be demonstrated that neither party has influenced the financial and operating policies of the other):

- the key management of the reporting entity and the key management of its parent undertaking or undertakings
- each person acting in concert in such a way as to be able to exercise control or influence over the reporting entity
- an entity managing or managed by the reporting entity under a management contract.

5.203 Following the definitions above the members of the corporation would be deemed to be related parties to the College, members of the senior management team and any other staff with significant involvement with major contracts (such as estate manager, or procurements officer) would be presumed to be related parties.

5.204 Members of the corporation may have an interest in businesses with which the College trades. It will need to be considered for each case whether that individual can influence the actions of the business to the extent that either the College or the business has subordinated its own separate interests.

5.205 FRS 8 does not require disclosure of the relationship and transactions between the reporting entity and the parties listed below, simply as a result of their role as:

- providers of finance in the course of their business in that regard
- utility companies
- government departments and their sponsored bodies.

5.206 The 2007 SORP does however, override this with a requirement to disclose Funding Council grants. The information contained within Note 2, Note 15 and Note 16 should cover this and therefore, further transactions with the funding bodies do not need to be disclosed under the requirements of FRS 8.

Note 39 Amounts Disbursed as Agent

Learner Support Funds

5.207 Learner support funds should be excluded from income and expenditure and disclosed only as a note, as illustrated in the Casterbridge College model financial statements. Further details on the treatment of agency costs such as learner support funds are provided in paragraphs 6.45 to 6.67 of this Handbook.

Chapter 6: Detailed Guidance on Specific Topics

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Accounting for Subsidiary and Associate Companies, and Joint Ventures

Use of College companies

6.1 The Skill Funding Agency issued updated guidance to General FE Colleges in May 2011 covering *Consent for Further Education Colleges to Invest in* Companies (please note - this guidance does not apply to Sixth Form Colleges regulated by the YPLA). Colleges may wish to consult with their financial statements auditors before making a decision on whether to establish a subsidiary undertaking. Colleges should also be aware of the new Charities Act 2006, though the implementation date and the need to establish a regulator for the FE sector means that there will not be any direct impact on the operation of a College company in 2010/11.

6.2 It is the responsibility of each College and its Corporation to ensure that the activities of its subsidiary and associated undertakings and those of any joint venture to which it is a party are within the scope of its primary powers under the Further and Higher Education Act 1992. Colleges are also reminded of the amendments to section 19 of this Act made by the Learning and Skills Act 2000. Colleges are given a specific power to subscribe for, or otherwise acquire, shares in or securities of a company, but this power may not be exercised for the purpose of conducting an educational institution. Colleges should not participate in companies for the purpose of the provision of education, if that provision is funded wholly or partly by the relevant funding bodies, unless the relevant funding bodies consent. Colleges are advised to obtain independent legal advice on the exercise of their power to participate in companies.

Subsidiary undertakings

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

Links with other companies

6.4 Where a College has links with companies and other organisations, these will normally be the subject of a formal memorandum between the College and the company or joint venture in accordance with *Consent for Further Education Colleges to Invest in Companies* (issued May 2011). Where a College has material business links with any companies or other organisations which, for any reason, are not consolidated or disclosed as subsidiary undertakings, associates or joint ventures, then details of these business links and any related potential liabilities will be disclosed in the notes to the accounts. Comparative figures are not required. Colleges will prepare a full list of

business links for discussion with their financial statements auditors, and will agree with these auditors which are material and require disclosure. Examples of such links include:

- a link through a trust which controls a company or organisation with which the College has (or has had) dealings
- a situation where the College is a major or minor partner in a large European grant-funded project. For example, under the terms of an ADAPT project each partner may bear liability in respect of the project as a whole to a varying degree (full, partial, joint and several, or none) and this requires disclosure.

6.5 In circumstances such as these, the nature of material links will be disclosed together with details of:

- the name of the company or organisation
- the principal activity
- any investment by the College
- whether any of the activities take place outside England.

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

Associates and joint ventures

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

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

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

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

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

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

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

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

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

6.13 An example might be as follows.

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

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

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

Each College will record within its operating activities:

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

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

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

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

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

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

Acquisition of private training providers

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

Discontinued activities

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

- The sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- If a termination, the former activities have ceased permanently.
- The sale or termination has a material effect on the nature and focus of the reporting entity's operations and represents a material reduction in its operation facilities resulting either from its withdrawal from a particular market or from a material reduction in turnover in the reporting entity's continuing markets.
- The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

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

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

Table 6.1: Consolidated income and expenditure account for the year ended 31 July 2011.

	Notes	Continuing operations	Discontinued operations	Total	Total
		2011 £'000	2011 £'000	2011 £'000	2010 £'000
INCOME					
Funding body income	2	33,996		33,996	36,921
Tuition fees and education contracts	3	3,609		3,609	4,944
Other grants and contracts	4	228		228	303
Other income	5	2,467	83	2,550	1,875
Endowment and investment income	6	2,003		2,003	1,437
Total income		**42,303**	**83**	**42,386**	**45,480**
EXPENDITURE					
Staff costs	7	24,200	127	24,327	28,542
Exceptional restructuring costs	7	1,551		1,551	0
Other operating expenses	9	12,623	127	12,750	13,557
Depreciation	13	4,038		4,038	2,802
Interest payable	10	108		108	0
Total expenditure		**42,520**	**254**	**42,774**	**44,901**
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and before tax		(217)	(171)	(388)	579
Gain on disposal of discontinued operations	40	210	0	210	0
Loss on disposal of assets	13	(9,420)	0	(9,420)	0
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposal of assets but before tax		**(9,427)**	**(171)**	**(9,598)**	**579**
Taxation	11	(12)	0	(12)	(12)
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax	**12**	**(9,439)**	**(171)**	**(9,610)**	**567**
Transfer from accumulated income within specific endowments		50	0	50	0
(Deficit)/surplus for the year retained within general reserves		**(9,389)**	**(171)**	**(9,560)**	**567**

Table 6.2: Consolidated statement of historical cost surpluses and deficits for the year ended 31 July 2011.

	Notes	Continuing operations	Discontinued operations	Total	Total
		2011 £'000	2011 £'000	2011 £'000	2010 £'000
(Deficit)/surplus on operations before taxation		(9,427)	(171)	(9,598)	579
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	23	1,416	0	1,416	1,431
Realisation of property revaluation gains of previous years	23	16,920	0	16,920	0
Historical cost surplus for the year before taxation		8,909	(171)	8,738	2,010
Historical cost surplus for the year after taxation		8,897	(171)	8,726	1,998

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Table 6.3: Consolidated statement of total recognised gains and losses for the year ended 31 July 2011.

	Notes	Continuing operations 2011 £'000	Discontinued operations 2011 £'000	Total 2011 £'000	Total 2010 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and tax		(9,439)	(171)	(9,610)	567
Unrealised surplus on revaluation of fixed assets	13	5,100	0	5,100	0
Appreciation of endowment asset investments	22	2,200	0	2,200	0
New endowments	22	100	0	100	0
Total recognised gains relating to the period		**(2,039)**	**(171)**	**(2,210)**	**567**
Reconciliation					
Opening reserves and endowments		92,679	0	92,679	92,112
Total recognised (losses)/gains for the year		(2,210)	0	(2,210)	567
Closing reserves and endowments		**90,469**	**0**	**90,469**	**92,679**

Table 6.4: Consolidated cash flow statement for the year ended 31 July 2011.

	Notes	2011	2010
		£'000	£'000
Cash inflow from operating activities	25	1,671	774
Returns on investments and servicing of finance	26	1,895	1,437
Taxation	11	(12)	(12)
Capital expenditure and financial investment	27	(7,731)	(6,363)
Management of liquid resources	28	1,850	0
Financing	29	4,464	(36)
Increase/(Decrease) in cash in the year	**30**	**2,137**	**(4,200)**
Reconciliation of net cash flow to movement in net funds/(debt)			
Increase/(decrease) in cash in the period		2,137	(4,200)
Cash held by company disposed of during year	41	(17)	0
Cash inflow from new secured loan	29	(4,500)	0
Cash inflow from liquid resources	28	(1,850)	0
Change in net funds resulting from cash flows	29	36	45
Movement in net funds in the period		(4,194)	(4,155)
Net funds at 1 August		10,587	14,742
Net funds at 31 July		**6,393**	**10,587**

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

Table 6.5: Notes.

Note 14 Investments

	College 2011 £'000	College 2010 £'000
Investments in subsidiary companies	6	6
Investments in associate companies	0	0
Total	**6**	**6**

At the start of the year the College owned three subsidiary companies, ABC Limited, XYZ Limited and 123 Limited.
The College owns 100 per cent of the issued ordinary £1 shares of ABC Limited, a company incorporated in England and Wales, and 100 per cent of the issued ordinary £1 shares of XYZ Limited, a company incorporated in England and Wales. The principal business activity of XYZ Limited is carrying out training of employees on behalf of employers. The principal activity of ABC Limited is the rental of property. The College also owns 10 per cent of the issued ordinary capital shares of PQR Limited, the initial cost of which was £200. 123 Limited was sold on 25 July 2011. Income and expenditure to the point of sale and transactions relating to the sale are included in these consolidated statements and notes. ABC Limited did not trade during the financial year. The results of XYZ Limited have been included in the consolidated statements and notes.

Note 40	Discontinued activities					
	Continuing 2011	Discontinued 2011	Total 2011	Continuing 2010	Discontinued 2010	Total 2010
Income	£'000	£'000	£'000	£'000	£'000	£'000
Funding body income	33,996	0	33,996	36,921		36,921
Tuition fees and education contracts	3,609	0	3,609	4,944		4,944
Research grants and contracts	228	0	228	303		303
Other income	2,467	83	2,550	1,825	50	1,875
Endowment and Investment income	2,003	0	2,003	1,437		1,437
Total income	**42,303**	**83**	**42,386**	**45,430**	**50**	**45,480**
Expenditure						
Staff costs	24,200	127	24,327	28,496	46	28,542
Restructuring costs	1,551		1,551	0		0
Other operating expenses	12,623	127	12,750	13,514	43	13,557
Depreciation	4,038		4,038	2,802		2,802
Interest payable	108		108	0		0
Total Expenditure	**42,520**	**254**	**42,774**	**44,812**	**89**	**44,901**
Surplus/(deficit) on operations after depreciation of tangible fixed assets at valuation and before tax	**(217)**	**(171)**	**(388)**	**618**	**(39)**	**579**
Gain on disposal of discontinued activities	210		210			0
Loss on disposal of assets	(9,420)		(9,420)			0
Taxation	(12)	0	(12)	(12)		(12)
Surplus/(deficit) on operations after depreciation of assets at valuation and after tax	**(9,439)**	**(171)**	**(9,610)**	**606**	**(39)**	**567**

Note 41 **Sale of business**

	2011 £'000
Net assets disposed of:	
Debtors	33
Cash at bank	17
Creditors	(26)
Loans	(234)
	(210)
Gain on disposal	210
	0

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

College Combinations

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

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

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

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

College combinations involving one or more further education corporations

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

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

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

6.23 For the period 1 April 1993 to 31 August 2002, there were:

- 16 model A combinations (31 per cent of all combinations)
- 35 model B combinations (69 per cent of all combinations).

For the period 1 September 2002 to 31 August 2007 there were:

- 3 model A combinations (including one triple dissolution) and
- 23 model B accounted combinations.

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

Merger accounted combinations

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

6.26 Any adjustment necessary to achieve uniformity of accounting policies will be made. However, the carrying values of the assets and liabilities of both Colleges are not required to be adjusted to fair value on consolidation.

6.27 The following disclosures should be made for the period in which the merger took place:

- the names of the Colleges which have merged
- the date of the merger
- whether the combination has been accounted for as an acquisition or a merger.

6.28 The combined College should also disclose the following information:

a an analysis of the current period's income and expenditure account and STRGL into:

- amounts relating to the merged College for the period after the date of the merger; and

- for each College, amounts relating to that College for the period up to the date of the merger

b an analysis between the merging Colleges of the principal components of the income and expenditure account and an STRGL for the previous financial period

c the aggregate book value of the net assets of each merging College at the date of the merger

d the nature and amount of significant accounting adjustments made to the net assets of either College to achieve consistency of accounting policies, and an explanation of any other significant adjustments made to the net assets of either College as a consequence of the merger

e a statement of the adjustments to consolidated reserves resulting from the merger.

6.29 The analysis of the income and expenditure account required above will show, at minimum:

- income
- operating surplus
- exceptional items split between continuing operations
- discontinued operations and acquisitions
- surpluses before taxation
- taxation
- extraordinary items.

6.30 Where a merger takes place after 31 July, but before the financial statements are published, the merger should be disclosed in the financial statements of both Colleges as a significant post-balance sheet event. The financial statements should be approved by the corporation in existence at the date of approval.

6.31 Each of the merging corporations is required to prepare accounts to the date of dissolution. Unless directed by the Secretary of State, accounts should not be prepared for a period in excess of a year. The responsibility for completing the accounts rests first with the corporation to be dissolved. ***If the corporation is dissolved before the obligation can be satisfied, then the obligation passes to the new corporation.*** In a model B combination, the continuing corporation is not required to prepare a part-year set of accounts.

6.32 Where a corporation is being dissolved, then it is the responsibility of either the new corporation (model A combination) or continuing corporation (model B combination) to ensure that the audited financial statements of the dissolved corporation(s) are submitted to the main funding body within five months of the dissolution.

Acquisition accounted combinations

6.33 Where the reorganisation is to be accounted for as an acquisition (for example, model B combinations), there are four points to consider in addressing the implementation of acquisition accounting:

- how to account for the results of the dissolved College in the financial statements of the continuing College
- establishing the fair value of the assets and liabilities of the dissolved College at the date of dissolution, for inclusion in the balance sheet at that date
- determining the amount of any positive or negative goodwill arising, and its accounting treatment in the continuing College's financial statements
- making appropriate disclosures in the continuing College's financial statements.

Accounting for post-acquisition results

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

Fair value

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

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

argument may prove difficult, although the specialised nature of many educational buildings should help.

Goodwill

6.37 Goodwill usually arises under acquisition accounting as the difference between the consideration and the fair value of the net assets acquired. Where the fair value of the net assets is greater than the consideration, the result is negative goodwill. Both goodwill and negative goodwill are generally accounted for in the balance sheet. In the case of the dissolved College, the absence of any consideration would mean a very substantial negative goodwill figure in the balance sheet of the continuing College, if accounted for in accordance with the relevant standard, FRS 10 *Goodwill and Intangible Assets*.

6.38 However, after careful consideration, it is deemed that it would be inappropriate to treat the fair value of the dissolved College's net assets acquired as negative goodwill. Instead, the transfer should be accounted for as in substance a ***gift***. This follows the suggested treatment in the ASB's *Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities*, and the 2007 SORP which requires all gifts (cash or non cash) to be included in the income and expenditure account.

6.39 It is also recommended that the "gift" should be shown in the statement of recognised gains and losses (STRGL). FRS 3 requires all gains and losses recognised in a period to be taken to the I&E account unless otherwise permitted or required by standards or the law. The preferred approach is however to take the gain directly to reserves through the STRGL. This would avoid significantly distorting the income and expenditure account itself in the year of accounting for the transaction and the need to review the presentation and headings in the income and expenditure account. By virtue of using the STRGL to recognise the gift, the value will be included within the income and expenditure reserve by the conclusion of that year of account.

6.40 If a College decides to recognise the gain in the I&E account though, in the interests of providing a true and fair view for the institution concerned it is suggested that the "gift" is included below the "Surplus on continuing operations after depreciation of assets at valuation and before tax" line, alongside the line for dealing with significant asset disposals. ***Further to FRS 18.58, whether the income and expenditure account or the statement of recognised gains and losses approach is adopted, it will constitute a disclosable override of the provisions of FRS 10***.

Disclosure

6.41 First of all, it will be necessary to include within the accounting policies note, ideally under the basis of preparation section, an explanation that in accordance with the 2007 SORP, the combination of the continuing College and the dissolved College has been accounted for as an acquisition for nil consideration from the date of acquisition.

6.42 The accounting policies note should also explain that where an acquisition is carried out at nil or nominal consideration and there is an excess of the fair value of the assets acquired over the fair value of the liabilities assumed, then the resulting gain has been treated as a gift and reflected in the income and expenditure account or statement of recognised gains and losses for the year

(whichever is agreed by the governors). It will be necessary to explain that this is an override of FRS10 which is necessary in the view of the Board of Governors in order for the financial statements to give a true and fair view.

6.43 Detailed disclosures are also required: for each class of the dissolved College's assets, with book values, adjustments (including those arising from bringing accounting policies into line) and fair values; the pre- and post-acquisition results of the dissolved College; and the effects on the cash flow statement.

Due date of receipt of finance record

6.44 Colleges are also required to submit with their audited financial statements, to the appropriate funding body, a finance record for the period. The following rules should be followed.

- If the combination occurs on 1 August, the new corporation (or continuing corporation) should ensure that the appropriate funding body receives, within six months, a finance record for year ending 31 July for each of the pre-merger corporations.
- If the combination occurs part way through the year, a finance record is only required for the new corporation (or continuing corporation) for that year. No finance record is required for the dissolving corporation(s).

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

Agency Arrangements

Introduction

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

Background

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

Financial Reporting Standard 5 *Reporting the Substance of Transactions*

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

- the substance of transactions
- recognition of assets and liabilities
- disclosures
- quasi-subsidiaries.

6.48 The core of the standard is that an entity should report the substance of the transaction into which it has entered. In determining the substance of a transaction, the following are required to be identified:

- whether the transaction has given rise to new assets or liabilities for the reporting entity
- whether it has changed the entity's existing assets and liabilities.

6.49 Assets are defined as "right or other access to future economic benefits controlled by an entity as a result of past transactions or events".

6.50 Liabilities are defined as "an entity's obligations to transfer economic benefits as a result of past transactions or events".

6.51 The recognition of assets and liabilities is defined as the process of incorporating an item into the primary financial statements under the appropriate heading. It involves depiction of the item in words and by a monetary amount and the inclusion of that amount in the statement totals. The standard requires recognition in the balance sheet of assets and liabilities if:

- there is sufficient evidence and existence of the item
- the item can be measured at a monetary amount with sufficient reliability.

Agency arrangements for Colleges

6.52 What constitutes an agency arrangement will depend upon each individual fund and its own individual characteristics. However, the following can be considered to be agency arrangements:

- general access funds
- childcare support
- residential bursary funds.

6.53 The above funds are allocated by the funding bodies as part of FE learner support funds.

6.54 At present only the general access fund element of learner support funds is treated as an agency arrangement and, therefore, excluded from Colleges' income and expenditure accounts. Childcare support and residential bursary funds are ***not*** currently treated as agency arrangements.

General access fund

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

- purchase of equipment
- student bursaries.

6.56 In addition to the above, the fund can be used to help with childcare support and accommodation needs.

6.57 Large items of equipment purchased from the access fund for a student's need will remain the property of the College and if returned to the institution for its

own use, the access fund should be reimbursed with an amount representing the depreciated value.

Childcare support

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

Residential bursaries

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

Unspent funds

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

Administration costs, interest and bank charges

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

Meeting the requirements of the Statement of Recommended Practice

6.62 The key test is whether the College has any future beneficial interest in the funds. In the majority of cases the funds will be given to students to support their studies, and so the beneficial interest will be transferred from the College to the learner. Where this occurs, the funds should be excluded from the income and expenditure account. In the College's year-end financial statements there should be a separate note for each of the funds showing how they have been treated.

6.63 In some cases, funds might not be passed direct to the student but to a third party, in order to pay for student-related transactions, such as residential costs and equipment. In these cases, as the contract is between the College and the third party, the beneficial interest is not transferred from the College to the learner. Where this occurs, the funds should be included within the income and expenditure of the College. For example, large items of equipment purchased from the access fund for a student's need remain the property of the College.

Disclosure requirements

6.64 The disclosure notes for learner support funds in Colleges' financial statements should be amended for income and expenditure consolidated in Colleges' financial statements. The necessary disclosure requirements are provided at Note 39 of Chapter 4 in this Handbook.

6.65 If you have any queries over the interpretation of this guidance please contact your financial statements auditor.

Other agency arrangements

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

Lead partner and Consortia income

6.67 Many Colleges will also act as consortium lead partners for income streams such as Adult Apprenticeships and will administer the claims on behalf of the partner organisations. The arrangements for these consortia vary but will include a mixture of College providers and private training providers, with the lead College able to deduct a percentage of the income earned (a "top slice") before passing it on, to cover administration and quality control procedures. The required disclosures within the lead College financial statements will depend on the nature of the organisation the funds were earned by, but will be:-

- the College should recognise its share of the income earned as a top slice when the right to consideration has been given i.e. the claim has been made in the ILR
- the College should recognise any income earned in its own right on the same basis
- where the College is passing funds on to a partner College or a non College partner, those amounts should be netted off against the income earned such that both elements are excluded from the accounts altogether
- a table reconciling the gross income claimed to the net income shown in the financial statements should be included within the notes to the accounts.
- where Colleges foresee either an actual or contingent liability existing within their arrangements as a result of the risks associated with being a lead College and not being able to recover any clawback of funds from the appropriate partners, then provision or disclosure should be made within the accounts accordingly.

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

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

Higgs Report: *Revised Combined Code on Corporate Governance*

Introduction

6.68 This section summarises the Higgs Report: *Revised Combined Code on Corporate Governance* (the Code). The guidance was approved by the LSC's Sector Accounting Policies Group at its meeting on 1 October 2003.

6.69 The code issued in July 2003 superseded and replaced the Combined Code issued by the Hampel Committee on Corporate Governance in June 1998. In July 2005 the Financial Reporting Council (FRC) announced that it would be conducting a review into how companies and investors have progressed in implementing the 2003 Combined Code on Corporate Governance. Initial findings and recommendations were reported in January 2006 and the FRC published updated versions of the Code in June 2006 and June 2008, and again in June 2010 (the "*UK Corporate Governance Code*"). A small number of changes were made to the previous versions of the Code but which do not affect the substance of the following text.

Main features of the Code

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

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

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

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

6.72 The intention is that provisions should be as clearly defined and verifiable as possible, so that companies can report unambiguously whether or not they have followed them. The supporting principles are cast in more general terms and leave the detailed method of implementation up to the College to decide.

6.73 If the Code is applicable to Colleges, they will be required to make a statement on how they have applied the main and supporting principles. The statement should also include confirmation that the College complies with the Code's provisions or, where it does not comply, provide an explanation as to why this is the case.

Required action by Colleges

6.74 No action is required at this time. However, Colleges need to be aware of the Code and should consider its impact on their corporate governance.

6.75 Colleges can obtain a copy of the Code from the Financial Reporting Council's website (http://www.frc.org.uk/corporate/combinedcode.cfm)

Land and Buildings Owned by a Third Party

Introduction

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

Background

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

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

Financial Reporting Standard 5 *Substance of Transactions*

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

Accounts Direction Handbook 2010/11

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

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

6.81 The funding bodies reiterated in section 2.1 of Chapter 2 of the Accounts Direction Handbook that, in preparing their financial statements, Colleges are required to follow the requirements of the 2007 SORP.

6.82 Paragraph 95 of the 2007 SORP indicates that the following accounting policy should be applied for land and buildings owned by a third party:

> *"A number of institutions occupy premises which are owned by other bodies and for which no rental or a nominal rental is made. In some cases there may be no formal agreement to occupy. Where an institution enjoys the use of an asset which it does not own and for which no rental or a nominal rental is paid, whether or not such use is regulated by a licence or lease, the financial statements must disclose this and, **if practicable, a value should be attributed to this benefit and be capitalised, with a corresponding credit to deferred capital grants** (which should subsequently be released to the income and expenditure account in accordance with paragraph 54), and thereafter depreciated over the period of use... Where no formal occupancy agreement exists, the institution should consider regularising the position by the establishment of a lease or licence, as this will assist in determining a value for the benefit.*"
>
> This represented a change from the previous guidance whereby the corresponding credit would have been made to the Revaluation Reserve (see paragraph 6.94 below).

Definition of "if practicable"

6.83 The SORP does not provide a definition of "if practicable". However, a College would normally be expected to provide a value for its land and buildings owned by a third party. Paragraph 18 of FRS 15 *Tangible Fixed Assets* permits an asset to be excluded from capitalisation either where:

- no reliable cost or valuation can be obtained; or
- the cost of obtaining a valuation is greater than the benefit to the users of the financial statements in assessing the management's stewardship of the assets.

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

Materiality

6.85 The Auditing Practices Board, in its Glossary of Terms issued in March 1995, states: "Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of the users of the institution's reports and financial statements."

6.86 Colleges should discuss the appropriateness and materiality of the above accounting treatment with their financial statements auditors, prior to implementing the policy.

The way forward

6.87 The question of whether or not a College should capitalise its land and buildings, when owned by a third party, depends upon whether it has rights or other access to ongoing future economic benefit. If it does, then the asset should be recognised.

6.88 Economic benefit can be met through service potential as well as cash flow. The test of whether the College has “control” of the rights or other access should be taken on a case-by-case basis.

6.89 “Control” means the ability to obtain for itself any economic benefits that will arise and to prevent or limit the access of others to those benefits. There are a number of possible circumstances that can arise, including the following.

- Where the land is owned by a charitable trust established in favour of a named College, then the ability of that College to control the economic benefit is clear: ongoing occupation is recognised and indeed explicit in the trust. In such circumstances, the College should recognise the use of the land and buildings as an asset. In such cases the trustees cannot, consistently with such trusts, direct the College to quit the charity premises. There should be clear disclosures relating to the accounting policy adopted and disclosure that the College does not enjoy the legal rights of ownership, for example, rights of sale or to the proceeds of sale.
- Where the land is owned by a charitable trust for an educational purpose but not linked to that educational provision being made through a specific College, there is less clarity. In such cases, the trustees would appear to have discretion as to the body that may occupy the property in the future. In the case of *Governing Body of Henrietta Barnett School v Hampstead Garden Suburb Institute* (1995) 93 LGR 470 (a school case, not FE), the judge said that there was nothing to stop the foundation trustees in such a case from serving notice to quit, provided reasonable notice was given. In such cases it may be more problematic to argue that the College has clear rights and access to future economic benefit.
- It is possible for land to be formally leased to a College. In these circumstances the situation will be clear in that the College will have rights and access to future economic benefits and therefore should capitalise its leasehold interest.

6.90 Therefore, Colleges must first establish the legal position of their occupation and use this to determine whether or not they should capitalise. For completeness, the accounts should state the basis of their occupation and any material conditions that may attach to their occupation.

Valuation date

6.91 The valuation date should be the later of:

- the date of incorporation; or
- the date of assuming occupancy.

6.92 For those Colleges which were incorporated under section 143 of the Learning and Skills Act 2000, such as voluntary-aided sixth-form Colleges, then the

valuation date should be taken as 1 April 2001, unless the date of occupancy was later than this.

Recommendation

6.93 When a College's land and buildings are either partly or wholly owned by a third party, such as a trust, and held for use by the institution, then the College needs to ascertain whether a value can be attributed to this benefit and capitalised, with a corresponding credit to the ***Revaluation Reserve***. The asset will then be depreciated over its remaining estimated life.

6.94 As noted above, the 2007 HE/FE SORP made changes to the accounting treatment for donated land (credit to income and expenditure) and for assets occupied by institutions but owned by third parties (credit to deferred capital grants) and removed a reference to inherited loans from which the historic treatment of inherited land and buildings (credit to revaluation reserve) could be inferred. The change in accounting treatment would be expected to only affect a relatively small number of institutions but in view of an ongoing review of the implementation of the 2007 SORP and the desire to retain comparability across the sector the LSC gave the opinion that the existing accounting treatment using the revaluation reserve should be maintained in 2008/09. This view was revisited and confirmed in 2009/10 based on discussions with the audit firms, the LSC and HEFCE.

6.95 The lack of clarity around the requirements of the original Accounts Direction and the basis for the initial credit being taken to the revaluation reserve left room for doubt as to the most appropriate treatment for such assets. In the absence of such clarity it is likely to be ***most appropriate to continue with the existing accounting treatment in respect of land and buildings inherited from local authorities, with the addition of a clear accounting policy to state how tangible fixed assets inherited from local authorities are accounted for in accordance with this guidance. An example policy is shown below:***

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

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

this and, if practicable, a value should be attributed to this benefit and be capitalised" onto the balance sheet at value with the corresponding credit to deferred capital grants (for buildings) or income (for land) instead – a change from the 2003 SORP.

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

Buildings owned by third parties

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

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

Subsequent Expenditure on Existing Fixed Assets

Introduction

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

Background

6.99 As Colleges are being encouraged to implement property strategies, there is an increasing incidence of the capitalisation of expenditure on buildings arising in Colleges' financial statements. There is a tendency for Colleges to assume that ***all*** significant "project-related" expenditure on their estate is capital expenditure and account for it accordingly. However, the College must demonstrate that the criteria within UK GAAP have been satisfied in order to do so and this guidance seeks to set out the issues to be considered.

6.100 Where the project involves the complete demolition of a building and its replacement, there is little debate with the College that any remaining net book value of the individual building should be written out of the books and the new expenditure capitalised. However, where the work involves only a partial demolition or the substantial renovation or redevelopment of a building, for example the first two floors of a four-storey building, there is some significant room for debate.

6.101 If Colleges adopt a policy of capitalising the additional expenditure without taking account of the existing carrying value of the building, there is a risk of double counting, that is, the carrying value of the building could be overstated resulting in future depreciation charges being too high.

6.102 In Circular 03/13 *Capital Handbook*, the LSC noted the need to apply minimum thresholds for capital support applications and set these in relation to a percentage of the College's turnover. From 1 November 2003, the minimum thresholds for capital support applications were as follows:

- £100,000 or the equivalent of 5 per cent of a College's annual turnover; or
- where the College has an annual turnover of over £10 million, this minimum threshold is pegged at £500,000

6.103 In November 2006 the LSC issued an updated Capital Handbook and restated the minimum qualifying project expenditure in Annex B, table 5 as:

Most recent audited College turnover	**Minimum qualifying project expenditure**
Less than £2 million	£100,000
More than £2 million and less than £10 million	5% of College turnover
More than £10 million	£500,000

Financial Reporting Standard 15 *Tangible Fixed Assets* Guidance

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

Capitalisation of expenditure

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

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

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

- Was the expenditure originally part of the College's long-term maintenance programme?
- Is the net book value of the existing asset plus the subsequent expenditure greater than its market value?

- Is there a **significant** prolongation of the fixed asset's useful life beyond that conferred by repairs and maintenance?
- Is there an increase in its capacity?
- Is there a **substantial** improvement in the quality of output or a reduction in the previously assessed operating costs?
- Is there a **substantial** improvement in the open-market value of the fixed asset?
- Is the College satisfied that its proposed accounting treatment (to capitalise or not to capitalise) would be no different whether it received a capital grant or not for the project?

Component accounting

6.108 The 2007 SORP introduced an explicit heading of component accounting (paragraph 94) such that "where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. For example, a building should be split for depreciation purposes between the structure of the building and items within the structure, such as general fittings."

6.109 The principles of component accounting have resided within FRS 15 since its publication as the attached extracts demonstrate (sections 6.119 below) however they may not have been followed previously. With significant estates developments in the making for most Colleges, the guidance from FRS 15 and the 2007 SORP should be considered when determining the depreciable lives of major assets. Early discussions with the College's property advisors will enable the appropriate information to be obtained to make a fair judgement in that respect.

Accounting treatment of costs incurred prior to construction commencing

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

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

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

particular attention to the following areas and their status **at the time the costs were incurred**:-

- Has appropriate funding body **consent** been obtained where the project is likely to exceed the limits shown in Chapter 5, paragraph 5.110.
- **Planning permission** – often the refurbishment or construction phase is dependent upon the College obtaining key planning permissions. The College should consider the likelihood that these will be granted and the impact on the project if they are not, before capitalising relevant costs.
- **Financing** – many capital projects involve a mixture of external borrowing and capital support from bodies such as (but not restricted to) the funding bodies. The funding bodies are often the major funding bodies in this respect and therefore the future viability of a project can be seen as dependent upon the College obtaining the appropriate level of appropriate funding body support. Colleges are informed in the 2006 Capital Handbook that they will be expected to increase their borrowing to reasonable levels before the funding bodies will consider the capital grant application. Such levels depend on the financial health category of the College but will range from 15% to 40% of total income. The overriding stress is on affordability though and Colleges should therefore consider the impact on the project if the necessary level of intervention funding from the funding bodies is not available and whether this could be reasonably replaced with other sources of finance.
- **Non financial criteria** – the Capital Handbook lists a range of other hurdle criteria to meet in the application, including sustainability, space utilisation, value for money and economy. The continuing achievement of these criteria should be kept under review when deciding whether to capitalise costs or otherwise.

6.113 Colleges should consider the use of additional narrative reporting where there are any issues with these at the balance sheet date so as to ensure all relevant information has been given to the readers of the accounts. The position is often not clear cut at the balance sheet date as to the appropriate treatment and Colleges should discuss the likely scenarios in advance with their financial statements auditors.

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

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

6.115 Where the subsequent expenditure includes the demolition or removal of substantial parts of an existing building, part of the expenditure incurred would not meet the test outlined above, and part of an existing asset would no longer

exist. To capitalise all the subsequent expenditure without impacting on the existing net book value could therefore overstate the value of the asset after the work was completed.

Carrying Value of existing assets within a capital development programme

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

A short example will illustrate this:-

- Assume that a College inherited a building at 1st April 1993 with a DRC valuation of £1,500,000;
- Also assume that the College deemed a 50 year UEL for that building with depreciation commencing at 1st August 2003 at the rate of £30,000 p.a.;
- As at 31 July 2009 a property strategy is confirmed as being more likely than not to proceed and as a result the building will be vacated and demolished at 31 July 2011;
- At 31 July 2009 the building will have a NBV of £1,050,000 after 15 years depreciation;
- This net book value would be written off over the remaining two years of the expected life, to July 2010, at the rate of £525,000 p.a. which is £495,000 higher than previously;
- In order to present a clearer view of the College's underlying results, the College may wish to disclose this ***additional charge*** (the "accelerated depreciation" element) separately. An illustrative example of this disclosure has been included within the Casterbridge College accounts in Chapter 4.It is not intended that all of the depreciation charge should be disclosed separately, only that element (for example as calculated at £495,000 above) which is additional to that previously calculated.

In many cases though, it is expected that there will be an equivalent release of the revaluation reserve through the Statement of Historical Cost Surpluses and Deficits to match the increased depreciation charge.

The alternative accounting treatment included in the 2007/08 Handbook, whereby a College might decide to eliminate all of the net book value of an asset affected by the property strategy in one year as

a form of accelerated depreciation, has not been carried over into later Handbooks. After representations from interested parties, this treatment has been agreed as not being fully compliant with FRS 15 and has been withdrawn. There is however no provision with UK GAAP to reverse this treatment for Colleges who chose to adopt it in 2007/08 and therefore any adjustments processed should be allowed to stand.

Colleges that are able to properly demonstrate that the indications of impairment found in FRS 11 (and reproduced at 5.100) may wish to then consider a formal impairment calculation. There are many difficulties associated with this next stage, primarily due to the inability to adequately identify an Income Generating Unit or the cash flows associated with it. As Colleges do not operate for profit, their break even position means that a meaningful impairment calculation is difficult to achieve. It may be possible to justify the use of the alternative accounting treatment in the 2007/08 handbook as a ***proxy*** for such calculations though. Taking the same scenario as above:

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

Consideration of carrying value of Assets in the Course of Construction

6.117 Colleges should always review the carrying value of fixed assets at the year end and this principle applies equally well to Assets in the Course of Construction. As noted in 6.112 above Colleges should continually reassess the carrying value of an asset against its likely recoverable value. This principle is important when a project may be subject to delays or significant amendment to size or scope.

6.118 Project managers will be routinely reviewing the costs being incurred anyway and Colleges should ensure that any costs being carried forward have an enduring benefit to the project where there are changed circumstances that throw some doubt on their appropriateness. This aspect has been brought into

focus by the current uncertainty regarding the availability of funding for capital projects both from within the sector and from financial institutions.

6.119 In the event that significant doubt is expressed about the likelihood of a project progressing in its original form (the key test in 6.110 above not being met such that the College cannot say that the project is more likely than not to proceed in that form) then the costs should be analysed for enduring benefit and those that do not meet the test, should be taken to the Income and Expenditure account. College auditors will be looking closely at the criteria for maintaining the costs as an asset and will want to see firm evidence of reviews in that respect.

Alternative treatments

6.120 If the College, on implementing FRS 15 for the first time, decided to adopt a policy of revaluation, then these issues may be resolved at the next review. However, for those Colleges who did not (the large majority), then this option is not available. Other possible alternatives include the following:

- Obtain an estimate from the College's supporting architect of the proportion of the proposed project expenditure that adds to the asset (in line with the standard) and that which impacts the existing asset and account for the expenditure (capital or revenue) accordingly.
- Carry out an impairment review of the asset on completion of the project – the estates were valued on incorporation on a depreciated replacement cost (DRC) basis. It would be possible for the DRC to be re-computed for the building in question and any material impairment recognised on that basis.
- To the extent that any renovation was subject to a capital grant, the grant is deferred in the balance sheet and released to income and expenditure to match the depreciation charge. It would be possible to construct an argument that an element of the grant should be released in proportion to the impairment, mitigating the impact on the College's financial statements.

6.121 To ignore the issue entirely in the face of the growing number of projects being planned would risk the College's estate being materially overvalued. Colleges should have clear direction on the subject and should take into account the proposed accounting treatment and consequences in their grant applications and property strategies.

Extracts from Financial Reporting Standard 15 *Tangible Fixed Assets*

Summary

6.122 *Paragraphs 34 and 35* – subsequent expenditure undertaken to ensure that the asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure, should be recognised in the profit and loss account as it is incurred. Without such expenditure the

depreciation expense would be increased because the useful economic life or residual value of the asset would be reduced.

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

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

Detailed provisions

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

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

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

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

representing the cost of the benefits consumed is removed from the balance sheet in accordance with paragraphs 72 and 73.

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

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

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

Financial Reporting Standard 17 *Retirement Benefits* – Full Implementation

Introduction

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

Background

6.130 In November 2002 the ASB issued an amendment to FRS 17 extending the timetable for the mandatory full implementation of the accounting standard to accounting periods beginning on or after 1 January 2005 at the latest.

6.131 In Circular 04/04 *Accounts Direction to Further Education Colleges for 2003/04*, the LSC recommended that Colleges should not adopt the accounting standard early and fully implement FRS 17 in light of ongoing discussions and debate nationally in respect of this accounting standard. Instead Colleges should disclose, by way of a note to the accounts, what entries would be made in the financial statements if the FRS were fully implemented. These "transitional arrangements" would apply until notice was given otherwise by the HE/FE SORP Board.

6.132 In November 2004, the Technical Group of the HE/FE SORP Board agreed that all HE and FE institutions should fully implement the requirements of FRS 17 in their financial statements for all accounting periods commencing on or after 1 January 2005. This meant that the first year of full implementation in Colleges' accounts was the 2005/06 financial year.

6.133 As a result of the disclosures made in the 2005/06 financial statements, the 2006/07 financial statements contained no references to the implementation as those occurred in the year before the comparatives shown.

6.134 On 7th December 2006 the ASB published an amendment to FRS 17 which aligned the disclosures more closely with the equivalent international standard, IAS 19. The amendment was effective for Colleges in 2007/08, though early adoption was encouraged.

Objectives of Financial Reporting Standard 17

6.135 The objectives of FRS 17 are to ensure that:

- financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding
- the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise
- the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

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

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

Teachers' pension scheme

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

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

Local Government Pension Scheme

6.140 On 2 April 2002 the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee published Update Bulletin 2 to *The Code of Practice on Local Authority Accounting in the United Kingdom 2000 – A Statement of Recommended Practice*. The Update Bulletin classifies the LGPS as a multi-employer scheme, where it is possible for individual employers to identify their share of assets and liabilities, and therefore it should be accounted for as a defined benefit scheme, in accordance with FRS 17.

Pooled valuations

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

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

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

Disclosure requirements

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

Table 6.6: Accounting treatment of implementing the standard.

Income and expenditure account		**Balance sheet**	**Statement of total recognised gains and losses**
Staff costs – other pension	Pension finance income (or costs)		

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

Income and expenditure presentation

6.144 FRS 17 introduced a new format heading “Pension finance income/ (costs)” into the income and expenditure account. The ASB received legal advice that this new heading was necessary and that it should be shown adjacent to, but separate from, the heading “Interest payable and similar charges”. The two components of the item “Pension finance income/ (costs)”, which are the “interest on pension scheme liabilities” and the “expected return on assets” should be disclosed separately in the notes (FRS 17 paragraph 84). This is typically achieved through the use of “analysis” tables within Note 32 to Casterbridge College with the net figure being shown in the Income and Expenditure account as appropriate (see below).

6.145 For the purposes of the Casterbridge accounts, the expected return on pension scheme assets and the interest on pension scheme liabilities should be netted off and the net figure should be included either within endowment and investment income, if a credit, or within interest payable, if a net debit. Each component should be identified within the pension note (Note 32 in Casterbridge) and the net figure included either in the “endowment and investment income” note (Note 5 in Casterbridge) or in the “interest and other finance costs” note (Note 9 in Casterbridge).

6.146 The additional FRS 17 charge for staff costs, being the difference between current service costs and the contributions paid, should be included as a single figure within the staff costs note, rather than apportioned across relevant department headings, to be consistent with the finance record.

6.147 Any contributions from employees should be set off against the current service cost (FRS 17 paragraph 51).

Early retirements

6.148 FRS 17's definition of “retirement benefits” specifically **excludes** benefits that become payable as a result of the **early** termination of an employee's employment. Therefore, where employees made redundant are granted enhanced pension benefits (say, for early retirement) in lieu of, or in addition to, redundancy payments, the cost of the enhanced pension benefits are in effect treated as redundancy payments rather than past service costs. Such benefits might relate to the termination of an operation or fundamental reorganisation and be shown as FRS 3 paragraph 20 items outside operating profit.

6.149 Colleges have in the past accounted for termination related pension entitlements as “Enhanced Pensions” (see below) and calculated a provision for the ongoing liability using the published tables (previously in LSC Circular 05/02) in accordance with FRS 12. The tables have an actuarial basis and in effect produce a similar result to that if it had been calculated under FRS 17 in most cases. Depending on the information flows between a College and its actuary, the implementation of FRS 17 on the balance sheet of a College resulted in certain elements (and not just the LGPS member related elements) of the provision being included within the total FRS 17 liability calculation and hence being released as Enhanced Pensions provisions as a prior period adjustment on implementation of the standard. Whilst this is strictly incorrect, there would be no significant overall balance sheet impact as the two provisions were calculated in a similar fashion. Therefore, where a College has already

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

Impact of the change to CPI for future pension increases

6.150 In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). This change will affect minimum required increases in the Local Government Pension Scheme, applying to both benefits in payment and in deferment, from 2011. No new legislation is necessary to bring this change into effect; the 2011 annual Pensions Increase Order will simply be laid before Parliament.

As CPI is generally expected to be lower than RPI in the long term this is expected in turn lead to lower pension increases in deferment as well as payment. Furthermore the cost of benefit accrual will also be correspondingly lower.

The Urgent Issues Task Force (UITF) issued Abstract 48 on 20 December 2010 which provides additional guidance on the accounting treatment. The Abstract states that an entity must identify whether its existing obligation is to pay benefit increases based on RPI ("an RPI obligation") or more generally inflation-linked increases. An RPI obligation may be within the formal terms of the scheme or as a constructive obligation arising from a public statement or past practice which has created a valid expectation in members of RPI increases.

If an entity has an RPI obligation and changes it, this is a benefit change and any reduction in scheme liabilities is accounted for as a negative past service cost in accordance with FRS 17 and recognised in the Income and Expenditure account (there would be no reduction in scheme liabilities if an obligation was changed only for future service benefits). The effect is recognised in the accounting period when any necessary consultations have been concluded or, in the case of a constructive obligation, when employees' ***valid expectations*** have been changed.

The Abstract notes that an entity may need to apply judgement both to determine whether a constructive obligation exists and, if so, when employees' valid expectations have been changed.

If there is no RPI obligation then a change to CPI is a change in the financial assumption used to measure scheme liabilities. Such a change is an actuarial gain or loss. The Abstract states that a ministerial announcement, as made in June 2010 in respect of public sector pensions and July 2010 for private schemes, forms a reasonable basis for a change in market expectations of the appropriate assumption.

The Abstract notes that adequate disclosure should be made to explain the effect of any changes to scheme liabilities arising from a change from RPI to CPI.

As a result, each College will have to examine its own circumstances and draw a conclusion as to whether there is a constructive obligation or not and present that case formally to their auditors. What will be paramount is that whichever treatment is adopted, then the rationale for that treatment should be explicitly summarised in the accounts of the College. The auditors may also require the rational to be confirmed in their letters of representation.

Suggested accounts disclosures

6.151 An Addendum to the 2009/10 Accounts Direction was issued on 22nd October 2010 which outlined the situation as it then stood and suggested accounts disclosures necessary to comply with the expected Final Abstract. The paragraph below repeats that narrative for completeness.

6.152 College should include the rationale within the pensions note, below the table where the gain is shown (if a STRGL movement) as part of exceptional item note, or pensions note if not sufficiently material to be an exceptional item (if taken through I&E account). Additional disclosures/comments should be made in the OFR or elsewhere as the College considers appropriate.

Please note the suggested narrative below cover all options and will need amending depending upon:

- the type of scheme (LGPS or Occupational – June or July announcements)
- and whether the College is taking the credit to I&E account or to the STRGL

In [its June 2010 budget / July 2010], the Government announced that it intended for future increases in [public sector/ occupational] pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The College has considered the [LGPS / College scheme name] scheme rules and associated members' literature and has concluded that [this change is a change in benefits and so has recognised the resulting credit in the Income & Expenditure account / as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL')]. At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue a final Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change as a prior period adjustment in the financial statements for the following year.

6.153 Having made the above disclosures in their 2009/10 financial statements, Colleges should now be considering whether the accounting treatment adopted can be formally supported by evidence from their own circumstances and

whether that in turn may lead to a prior period adjustment to correct for any re-interpretations.

Financial health implications of implementing Financial Reporting Standard 17

6.154 The funding bodies take many factors into account in assessing a College's financial health group, such as financial and non-financial factors, with the funding bodies placing greater emphasis on the solvency of the College.

6.155 The funding bodies' financial health grading system adds back the effect of implementing FRS 17 when assessing a College's financial health.

6.156 Table 6.7 shows the effect of FRS 17 on the financial ratios used in the model and the action taken by the funding bodies to negate the effect of the accounting standard.

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

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

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

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

Enhanced pensions provisions

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

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

- balance at end of year – balance sheet, provision
- retirement cost in year (if any) – income and expenditure account, operating costs
- payments in year – balance sheet, cash
- interest on provision – income and expenditure account, financing cost
- actuarial gain/(loss) – statement of recognised gains and losses.

Glossary to Financial Reporting Standard 17

Actuarial gains and losses

6.161 The changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Current service costs

6.162 The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailments

6.163 An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. For example, early termination of employees' services or termination or amendment of scheme terms affecting benefits accrued by future service.

Defined benefit scheme

6.164 A pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme

6.165 A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. An individual's benefits are determined by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.

Expected return on pension scheme assets

6.166 The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Multi-employer scheme

6.167 A defined contribution scheme or a defined benefit scheme where more than one employer participates.

Past service costs

6.168 The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension finance income/(costs)

6.169 The total of the pension interest cost and the expected return on pension assets.

Pensions interest cost

6.170 The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Retirement benefit

6.171 All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Scheme liabilities

6.172 The liabilities of a defined benefit scheme for outgoings due after the valuation date.

Settlements

6.173 An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. For example, the payment of a lump sum in exchange for surrender of rights, the purchase of an annuity to cover benefits, or the transfer of scheme assets and liabilities relating to employees leaving the scheme.

Removal of SSAP 24 Provisions

Pension provisions in pooled schemes

6.174 It is possible that a College could be in a pooled pension scheme and be carrying a SSAP 24 provision for a shortfall in this scheme. It was stated in paragraph 6.139 that these Colleges would for FRS 17 purposes be treated as defined contribution schemes. However, the shortfall in the pension scheme needs to be addressed:

a Where there is a SSAP 24 pension provision for 'strain on fund', for example, a specific amount calculated by the College using the pension scheme official spreadsheet and paid by the College to the scheme for early retirements of named employees.

b Where there is a pension provision for a fund deficit.

6.175 In the case of a) above, the College should continue to make a provision under the auspices of FRS 17 as it relates to past contributions payable that have yet to be settled.

6.176 In the case of b) above, the provision would be released to the Income and Expenditure Account.

Income recognition

6.177 Since the ASB issued Application Note G: Revenue Recognition, as an Amendment to FRS 5, 'Reporting the Substance of Transactions' (Application Note G') in November 2003, questions have arisen about the accounting for revenue from contracts to provide services, and the UITF was asked to provide guidance. In March 2005 it issued UITF Abstract 40 Revenue recognition and service contracts. The principles contained within both Application Note G and UITF 40 do not pose any great problems for Colleges but should require Colleges to examine closely the terms and conditions within any funding agreements to ensure that income is properly recognised in the correct accounting period.

6.178 The overriding consideration is whether the College has performed, or partially performed, its contractual obligations. If it has performed some, but not all, of its contractual obligations, it is required to recognise income to the extent that it has obtained the right to consideration through its performance. Conversely, if the contractual obligations have not been met, then the income should not be recognised.

6.179 It is therefore important that Colleges clearly understand the terms and conditions contained within any contracts entered into and seek clarification from the funder where these are not clear.

New UK Exposure Drafts

Introduction

6.180 In July 2005, the Accounting Standards Board (ASB) issued four new Financial Reporting Exposure Drafts (FREDs) as part of its strategy for convergence with International Financial Reporting Standards (IFRS):-

- FRED 36 '*Business Combinations* (IFRS 3) *and Amendments to FRS 2 Accounting for Subsidiary Undertakings* (parts of IAS 27 *Consolidated and Separate Financial Statements*)'.

- FRED 37 '*Intangible Assets (IAS 38)*'.
- FRED 38 '*Impairment of Assets (IAS 36)*'.
- FRED 39 *'Amendments to FRS 12 Provisions, contingent liabilities and contingent assets* and *Amendments to FRS 17 Retirement benefits*'.

6.181 Further exposure drafts in respect of UK GAAP have been issued since then:

FRED 40 *Heritage Assets* in December 2006 (now FRS 30);

FRED 41 *Related Party Disclosures* in July 2007 (now FRS 8 revised);

FRED 42 *Heritage Assets* in June 2008 (now FRS 30);

FRED 43 Application if Financial Reporting Standards in October 2010; jointly with

FRED 44 Financial Reporting Standard for Medium Sized Entities; and

FRED 45 Financial Reporting Standards for Public Benefit Entities (FRSPBE)

6.182 Colleges should note that these FREDs have been provided for information only. Therefore, no action is required for the time being.

FRED 36 *Business Combinations* (IFRS 3) *and Amendments to FRS 2 Accounting for Subsidiary Undertakings* (parts of IAS 27 *Consolidated and Separate Financial Statements*)

6.183 The IASB issued IFRS 3 in March 2004 following completion of the first phase of its Business Combinations project. FRED 36 is based on the Exposure Draft of Proposed Amendments to IFRS 3 issued by the IASB in June 2005 and the Exposure Draft of Proposed Amendments to IAS 27.

6.184 The main changes to existing accounting practices that would arise from adopting the proposals in FRED 36 are set out below. The ASB is concerned that certain aspects of the proposals may not improve the quality of information in financial statements.

6.185 Under current UK accounting practice the objective of acquisition accounting is to reflect the cost of the acquisition. To the extent to which it is not represented by identifiable assets and liabilities (measured at their fair value), goodwill arises and is reported in the financial statements. This exposure draft adopts a different perspective and requires the financial statements to reflect the fair value of the acquired business.

6.186 The proposals treat the group as a single economic entity ('entity concept') and any outside equity interest in a subsidiary is treated as part of the overall ownership interest in the group. As a consequence of this changes in a parent's ownership interest, that do not result in a change of control, are to be recognised as changes in equity. No gain or loss will be recognised in the profit and loss account. In the UK, to date, accounting has been based on the 'parent entity concept'. Under the parent entity concept the extent of non-controlling interests and transactions with non-controlling interests are separately identified in the primary financial statements.

6.187 It is proposed that goodwill is to be recognised in full; that is 100% of goodwill is recognised even if less than 100% is acquired. FRS 2 requires that goodwill arising on acquisition should only be recognised with respect to the part of the subsidiary undertaking that is attributable to the interest held by the parent entity.

6.188 Goodwill, after initial recognition, is to be measured at cost less impairment losses, and amortisation is not to be permitted. The IASB concluded that more useful information would be provided if goodwill was not amortised but subjected to a rigorous and operational impairment test. FRS 10 'Goodwill and Intangible Assets' seeks to charge goodwill to the profit and loss account only to the extent that the carrying value of goodwill is not supported by the current value of goodwill within the acquired business.

6.189 Subsequent measurement of goodwill is a complex issue; neither annual impairment nor amortisation is likely to result in a conclusive value for the carrying amount of goodwill. The ASB is seeking views on whether the UK IFRS-based standard should be amended and an option introduced allowing amortisation of goodwill.

6.190 Costs incurred in connection with an acquisition are not to be accounted for as part of the cost of the investment.

FRED 37 *Definition of an Intangible Asset* **and FRED 38** *Impairment Tests*

6.191 As part of the first phase of the Business Combinations project the IASB amended both IAS 38 'Intangible Assets' and IAS 36 'Impairment of Assets'. FREDs 37 and 38 propose the adoption of UK standards based on the current text of these standards.

6.192 The main differences between the proposed standards and current accounting practice are as follows:

FRED 37 *Definition of an Intangible Asset*

6.193 The IASB reconsidered the definition of an intangible asset and affirmed the view that identifiability is the characteristic that conceptually distinguishes other intangible assets from goodwill.

6.194 IAS 38 does not define '*identifiable*' but states an intangible asset meets the identification criterion when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract asset or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity of from other rights and obligations.

6.195 This is in contrast to FRS 10 which defines identifiable assets as assets that are capable of being disposed of or discharged separately, without disposing of a business of the undertaking. The proposed Standard therefore extends the definition of an intangible asset to include those that are not separable.

FRED 38 *Impairment Tests*

6.196 To justify the carrying of goodwill without systematic amortisation it is clear that a robust test for impairment is required. The impairment test must provide confidence in its ability to identify reductions in the carrying amount of acquired goodwill. There are two key differences between the impairment test set out in FRS 11 and that of IAS 36:

a the FRS 11 test attempts to distinguish between acquired and internally generated goodwill and to recognise only impairment of the acquired part. The proposed Standard does not include such a test;

b the FRS 11 impairment test includes a test to check the accuracy of impairment by comparing actual cash flows against those projected; IAS 36 does not contain a similar test.

FRED 39 *Amendments to FRS 12 Provisions, contingent liabilities and contingent assets and Amendments to FRS 17 Retirement benefits*

6.197 It is proposed that FRS 12 is renamed 'Non-financial Liabilities'. A non-financial liability is defined as a liability other than a financial liability as defined in FRS 25 'Financial Instruments: Disclosure and Presentation'. The IASB states that this amendment is to clarify that IAS 37 (and thereby FRS 12) should be applied to all non-financial liabilities that are not within the scope of other Standards.

6.198 The Exposure Draft no longer applies the terms 'contingent liabilities' and 'contingent assets'. Contractual rights and obligations can be divided into two types: 'conditional' and 'unconditional'. An entity recognises a liability relating to the unconditional obligation; uncertainty about the future event is reflected in the measurement of the liability. The term 'contingency' is used to refer to uncertainty about the amount required to settle the liability, rather than uncertainty as to whether a liability exists.

6.199 Under FRS 12, a provision is only recognised if it is probable that an outflow of economic resources would be required to settle the provision. When applying the amended definitions all unconditional obligations that meet the definition of a liability are considered for recognition. The draft Standard omits the probability criterion from recognition and moves it to measurement.

6.200 The amendments made to the recognition criterion, particularly the removal of the probability criterion, will give rise to a greater number of liabilities meeting the recognition criteria. These amendments place greater emphasis on satisfying the definition of a liability. The Exposure Draft notes that an essential characteristic of a liability is that the entity has a present obligation arising from a past event. The removal of the probability criterion from recognition will require all present obligations that meet the definition of a liability to be recognised.

6.201 What will change? - a simplified example

An entity is being sued for damages of £10 million. Legal proceedings have started, but the entity disputes liability. The entity estimates that it has a 20 per cent chance of losing the case. Under FRS 12, the entity would disclose a contingent liability in the notes to the accounts. Under the proposals in FRED 39, the entity has an unconditional obligation to

stand ready to pay the damages if awarded. In this case, it would recognise a non-financial liability of £2 million.

6.202 The IASB is also proposing to amend the requirements relating to restructurings. The revised Standard states that a decision to restructure, even if accompanied with an announcement by management is not the requisite past event for the recognition of a liability. It would appear that this amendment will result in many restructurings that were previously recognised as 'single sum amounts' being recognised as a number of individual amounts when each cost meets the definition of a liability.

6.203 UK accounting standards currently include no specific requirements for accounting for termination benefits other than the general principles of FRS 12. It is proposed to introduce that section of IAS 19 ‘Employee Benefits’ that define and set out the accounting requirements for termination benefits into FRS 17 (FRS 17 will be renamed 'Retirement and Termination Benefits').

6.204 Termination benefits may be either 'involuntary' (provided as a result of an entity's decision to terminate an employee's employment) or 'voluntary' (offered for a short period of time in exchange for an employee's decision to accept voluntary termination).

6.205 A liability and expense for 'voluntary’ termination benefits shall be recognised when the employee accepts the entity's offer to those termination benefits.

6.206 A liability and expense for 'involuntary’ termination benefits, except where provided in exchange for the employees future services, shall be recognised when the entity has a plan of termination that it has communicated to the employees and the plan meets the criteria specified in the Standard. Involuntary termination benefits provided in exchange for the employees future services shall be recognised over the period of service.

FRED 40 *Heritage Assets*

6.207 In December 2006, the ASB published an exposure draft ‘Accounting for Heritage Assets’. The aim is to improve the quality of the financial reporting of heritage assets for entities such as museums holding collections of art, antiques and books and also for entities that own and manage landscape or buildings for their environmental or historical qualities. The proposals in Financial Reporting Exposure Draft (FRED) 40 have been developed from a Discussion Paper ‘Heritage Assets: Can Accounting Do Better?’ which the ASB issued in January 2006.

6.208 The proposals apply only to entities that hold heritage assets that contribute to a principal objective of promoting knowledge and culture. These entities should report their heritage assets in accordance with new requirements, rather than the current requirements of FRS 15 ‘Tangible Fixed Assets’.

6.209 Specifically, the proposals will require entities, wherever practicable, to report collections of heritage assets at valuation in their annual accounts. Where it is not practicable to obtain a valuation, the collection should not be reported in the balance sheet. This is a change from the Discussion Paper, which proposed that the accounting policy should be applied for an entity’s total holdings of

heritage assets. Enhanced disclosures are required regardless of whether or not collections are reported in the balance sheet.

6.210 Illustrative disclosures, including details of the nature and scale of heritage assets held and policies for their acquisition, preservation, management and disposal are included in the FRED.

6.211 The proposals were intended to address criticisms of the current financial reporting requirements that result in most entities only recognising recently acquired heritage assets in the balance sheet at cost: figures which may bear little or no resemblance to the value of the entity's overall collection. Colleges should note that following feedback from interested parties, the ASB re-issued the exposure draft as FRED 42 (see 6.215 below).

FRED 41 *Related Party Disclosures*

6.212 FRED 41 contains proposals to replace the existing UK standard (FRS 8) with a Financial Reporting Standard based on International Accounting Standard (IAS) 24.

6.213 The proposals in the FRED are designed to ensure consistency between the requirements of accounting standards and company law. In March 2007 the Government issued a consultation document 'Implementation of Directive 2006/46/ EC on Company Reporting - Amending the Accounting Directives' which will align the definition of a related party in UK company law with that in IAS 24. Without an amendment to FRS 8 a conflict would arise between that standard and the Companies Act requirement.

6.214 The proposals will lead to improved convergence between UK and International Financial Reporting Standards (IFRS) whilst avoiding any potential conflict between the requirements of financial reporting standards and company law. The FRED also proposes to:

- incorporate the IASB's proposals to amend IAS 24, as published in February 2007;
- provide disclosure exemptions for wholly owned subsidiaries in accordance with the DTI proposal for the UK implementation of Directive 2006/46/EC; and
- provide guidance on materiality, based on that set out in IAS 1 Presentation of Financial Statements.

6.215 The FRED also requires disclosure of transactions entered into by the [College] with related parties if they are material and have not been concluded under normal market conditions, as required by the Directive. The ASB notes that this is an addition to the disclosure requirements under IAS 24 and has asked both the Government and the European Commission to clarify whether this was the intention of the Directive. This proposal will be reviewed in the light of their responses.

6.216 It is anticipated that the changes proposed to UK company law above will become effective in 2009.

FRED 42 *Heritage Assets*

6.217 In June 2008, the ASB issued Financial Reporting Exposure Draft (FRED) 42 ‘Heritage Assets’ which aims to improve the quality of the financial reporting of heritage assets. The proposed standard will apply not only to museums and galleries, but also to other entities that house historic collections of art, antiques and books, or that own or manage land or buildings with important environmental or historical qualities.

6.218 The main feature of the proposals is that enhanced disclosures should apply to all entities that hold heritage assets, regardless of whether these assets are reported in the balance sheet. These disclosures should provide readers with an understanding of the asset values being reported as well as the entity’s policies for managing its total holding of heritage assets.

6.219 The proposals also require heritage assets to be reported in the balance sheet where information is available on cost or value. The ASB remains of the view that heritage assets are assets and that the best financial reporting is secured when they are reported as such in the balance sheet.

6.220 Accounting for heritage assets presents some very difficult and challenging issues and, having considered a number of alternative approaches, including those proposed in the Discussion Paper ‘Heritage Assets: Can accounting do better?’ (January 2006) and FRED 40 ‘Accounting for heritage assets’ (December 2006), the ASB is not persuaded there is a better accounting solution than the current FRS 15 based requirements. The ASB does, however, expect the enhanced disclosures that are proposed in FRED 42 to significantly improve the financial reporting of heritage assets and thereby contribute to better financial management in this important sector.

6.221 Subsequent to the above the ASB has now issued a full Financial Reporting Standard (FRS 30 *Heritage Assets*) which utilises the majority of the text within FRED 42 unchanged. A fuller analysis is set out below.

FRED 43 *Application of Financial Reporting Standards and* FRED 44 *Financial Reporting Standards for Medium sized Entities*

6.222 The ASB issued a FRED in October 2010 outlining the proposed future for financial reporting in the UK. It proposed the adoption of a tiered approach to financial reporting, based on public accountability and size.

6.223 A new UK Financial Reporting Standard for Medium-sized Entities (FRSME) would replace existing UK GAAP and full EU-adopted IFRSs would be mandated for publicly accountable entities. Small non-publicly accountable entities would be permitted to continue to apply the Financial Reporting Standard for Smaller Entities (FRSSE). Entities would be permitted to adopt the accounting regime applicable to a higher tier. Importantly, simplified disclosures are proposed for many subsidiaries.

6.224 The FRSME is based on the IASB’s IFRS for Small and Medium Sized Entities (IFRS for SMEs), with modifications in certain areas, including:

- to replace the tax accounting requirements in the IFRS for SMEs with those of IAS 12 *Income Taxes;*

- to align the requirements of the standard with the EU Accounting Directives (for example reducing the presumed life of goodwill from 10 years to five years);
- to avoid 'gold-plating' of existing legal requirements (for example aligning the requirement to prepare consolidated accounts with UK company law);
- to introduce certain disclosure exemptions for qualifying subsidiaries
- to introduce a parent company cash flow statement exemption.

6.225 Disclosure exemptions are proposed also for qualifying subsidiaries using the recognition and measurement requirements of EU-IFRS.

6.226 The FRED comprises a draft Application FRS (FRED 43) and the draft FRSME (FRED 44), together with an Explanation, Appendices and a useful Key Facts document.

FRED 45 *Financial Reporting Standards for Public Benefit Entities*

6.227 The ASB published Financial Reporting Exposure Draft (FRED) 45 in March 2011, which sets out proposals for a Financial Reporting Standard for Public Benefit Entities (FRSPBE) to accompany the proposed Financial Reporting Standard for Medium-size Entities (FRSME). Many of the proposals are consistent with current practice.

6.228 The FRSPBE defines a public benefit entity as an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

6.229 It is proposed that the FRSPBE will be mandatory for entities which meet the definition of a public benefit entity and would otherwise apply the FRSME. The FRSPBE addresses transactions that are specific to the public benefit entity sector, including:

- concessionary loans;
- property held for the provision of social benefits;
- entity combinations;
- impairment of assets;
- funding commitments; and
- incoming resources from non-exchange transactions (donations etc).

Further Guidance on the Exposure Drafts

6.230 For the time being the funding bodies will not issue any further guidance to Colleges on these draft accounting standards as the accounting treatment

might change by the time they get issued as accounting standards. If in the meantime Colleges wish to obtain further information on the FREDs they should refer to the ASB's website at www.frc.org.uk/asb

Urgent Issue Task Force (UITF) Abstracts

6.231 From time to time the ASB issues UITF Abstracts to deal with emerging issues that are not adequately dealt with in the existing standards and which are sufficiently pressing that they cannot wait for the full standard to be revised and reissued. On the whole the issues covered in the Abstracts are not relevant to the sector and are only referred to within this Handbook when they are relevant.

6.232 On 13 February 2008 the UITF published Abstract 45 and Information Sheet 83. Abstract 45 has the effect of implementing into UK GAAP IFRIC Interpretation 6 – Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment.

6.233 The Abstract provides guidance on accounting for liabilities for waste management costs under the EU Directive on waste electrical and electronic equipment (the WEEE Directive). The Abstract considers the attribution of waste management costs where an individual producer's obligation arises from its participation in the market during a measurement period. The consensus is that the obligating event giving rise to a liability for waste management costs is participation in the market during a measurement period.

6.234 The European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, gave rise to questions about when the liability for the decommissioning of WE&EE should be recognised. The Directive distinguishes between 'new' and 'historical' waste and between waste from private households and waste from sources other than private households. New waste relates to products sold after 13 August 2005. All household equipment sold before that date is deemed to give rise to historical waste for the purposes of the Directive.

6.235 On the 23rd October 2008 the ASB issued UITF Abstract 46 (IFRIC 16) Hedges of a Net Investment in a Foreign Operation. Abstract 46 has the effect of implementing the International Accounting Standards Board's (IASB's) International Financial Reporting Interpretations Committee (IFRIC) Interpretation 16 'Hedges of a Net Investment in a Foreign Operation' in the UK and Republic of Ireland. Abstract 46 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with FRS 26 *Financial Instruments: Recognition and Measurement*. As such it is not expected to have any direct relevance to the FE sector.

6.236 On the 9th July 2010 the ASB issued UITF Abstract 47 (IFRIC 19) Extinguishing Financial Liabilities with Equity Instruments. The Abstract is applicable to entities preparing their financial statements in accordance with UK GAAP and applying FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement'. As such it is not expected to have any direct relevance to the FE sector

6.237 On 17th December 2010 the ASB issued UITF Abstract 48 *Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits.* The details within this important Abstract and their implications for the FE sector have been discussed above already.

Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities

Introduction

6.238 The Accounting Standards Board (ASB) issued the *Statement of Principles for Financial Reporting* in December 1999. Although the Statement is of relevance to the financial statements of profit-orientated entities in both the private and public sectors, the ASB believes that the principles it sets out have wider application and, in May 2003, issued a discussion paper seeking comments on the application of those principles to public benefit entities. Comments received on the discussion paper were incorporated into an Exposure Draft *Statement of Principles for Financial Reporting – Proposed Interpretation for Public Benefit Entities* that was issued by the ASB on 11 August 2005. With certain points of clarification only, the final document was published by the ASB in June 2007 (http://www.frc.org.uk/asb/technical/projects/project0017.html)

Background to the Statement

6.239 The primary purpose of the Statement is to provide a coherent frame of reference to be used in the development of statements of recommended practice (SORPs), other specific guidance to the sector and to assist preparers of the financial statements and their auditors when faced with new or emerging issues.

6.240 The Statement is not an accounting standard, nor does it have a status, which is equivalent to an accounting standard. Where there is an inconsistency between the principles set out in the interpretation and a standard, such as SSAP 4 *Accounting for Government Grants*, the standard must be followed until it is replaced or revised. This is an issue that the ASB is considering further.

6.241 The principles in the Statement are however intended to be relevant to the financial statements of public benefit entities, such as Colleges.

6.242 Public Benefit Entities (PBEs) are reporting entities whose primary objective is to provide goods or services for the general public or social benefit and where risk capital has been provided with a view to supporting that primary objective rather than a view to a financial return to equity shareholders.

6.243 There are a number of approaches set out in the Interpretation which could, if applied to the financial statements of Colleges, have far reaching consequences including:

- Capital grants – these are suggested for recognition in the income statement as a gain immediately unless there are

conditions, in which case they should be recognised when any conditions are substantially met or are virtually certain to be met (para 5.34)

- Donation of services – with particular reference to those services that an entity might otherwise have purchased then the Statement proposes that the service should be recognised in the financial statements based on its value to the recipient – provided that the value can be reliably measured (para 4.50)
- Recognition of liabilities – the original draft included a desire to recognise liabilities under executory style contracts where there were non performance related commitments which was acknowledged as being inappropriate in the current context for PBEs. There remains continuing concerns about the interpretation of constructive obligations for PBEs and the ASB committed to consider these matters further. Depending on the results of those deliberations, Colleges could see additional liabilities being recognised in their accounts in future.
- Business combinations – the draft Interpretation took the view that the majority of combinations would be acquisitions not mergers and that where nil consideration was involved (as is the case for the combination of two or more Colleges) then the resulting gain should be taken to the income and expenditure account. The presumption of acquisitions has been removed but the accounting treatment of the gain has only been amended to acknowledge the gain as a gift of one business to another, with the same end result for the accounting treatment.

New UK Financial Reporting Standards

6.244 The Accounts Direction Handbook for 2010/11 includes as far as they are applicable, all UK Financial Reporting Standards up to and including FRS 30 Heritage Assets.

6.245 In June 2009 the ASB published FRS 30 Heritage Assets. In developing the FRS, the ASB considered comments on the Discussion Paper and on the exposure drafts, FRED 40 and FRED 42. The new FRS should be applied in respect of accounting periods *beginning on or after 1 April 2010* and earlier application is encouraged.

6.246 The standard applies to all heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Assets that are used by a College in its operations should be accounted for as operational assets in accordance with FRS 15 'Tangible fixed assets', notwithstanding historical or other heritage qualities.

6.247 The previous definitions of heritage assets set out in FRED 42 have been maintained and the objective of the FRS is to ensure that:

- *enhanced disclosures* apply to all heritage assets, regardless of whether they are reported in the balance sheet; and

- where information is available on cost or value, heritage assets are reported in the balance sheet.

6.248 These disclosures should provide readers with an understanding of the asset values being reported as well as the entity's policies for managing its total holding of heritage assets. The valuation rules within the standard are more relaxed than those found in other standards, with the express intent of encouraging entities to report heritage assets in the balance sheet. There will be the need to ensure that the accounting policies adopted for a College's holding of heritage assets are stated, including details of the measurement bases used.

6.249 The first time adoption of the standard will result in a prior period adjustment to income and expenditure reserves for that element relating to the value at donation, not previously recognised. Valuations changes relating to the assets subsequent to that date will be taken to revaluation reserves under the standard.

Charities Act 2006

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