

# **Supplement A to Circular 03/XX**

## **Financial Plan Returns 2003/2004: Guidance on Completing the Plan**

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# Section 1: Financial Return Spreadsheets

## Three-year Financial Plan

1 The workbook *FinPlan03.xls* contains the three-year financial plan forms and schedules.

## Five-year Financial Plan

2 The increasing scale of some college accommodation strategies has required the development of a five-year financial plan to facilitate the review of colleges' financial health following completion of a project.

3 The Learning and Skills Council (LSC) has made the evaluation proforma available to colleges that wish to produce a five-year financial plan. The workbook is called *FinPlan03 5yr.xls*. However, colleges should only submit a three-year version to the LSC at this time.

## Mid-year Update 2003/04

4 The mid-year update contains Forms 1, 2A, 2B, 3 and 4 and Schedule 1 (Schedule 1B of the three-year financial plan). The headings in each of the forms are similar to those used in the three-year financial plan. There are four columns of figures in this return. The first column is the college's original estimate of the out-turn for the year ending 31 July 2004. This column will be consistent with the college's plan for this period as returned to the LSC in the three-year financial plan. The second column is used for the college's out-turn forecast for the year. The third and fourth columns are calculated automatically and show the variation between the original plan and the mid-year update of the figures. The variation is displayed as an actual difference and as a percentage of income.

5 Where there are variances greater than 1% between the original estimated out-turn for 2003/04 and the mid-year update provided in February 2004, colleges should explain the variances in an accompanying commentary.

6 The workbook *Midyr04.xls* contains the mid-year update forms for the year 2003/04.

## Finance Record 2002/04

7 The proforma for the finance record 2003 is now part of Circular 03/08 *FE Colleges: Accounting Policies and Return of Audited Financial Statements*.

### Potential Problems

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

- a balance sheet or cash flow does not balance;
- b saving data to disk;
- c printing forms; and
- d LSC support for capital projects.

### Solutions to these problems

#### Balance sheet does not balance

9 Many colleges 'completed' their plans only to find that the balance sheet did not balance. In most cases, the error was due to incomplete recording of transactions. The following checklist will help to identify the reason for imbalance in the majority of cases:

- a the balance sheet should balance at lines 8 and 15. If it does not balance, the plan is incomplete;
- b the most common area where errors occur is Schedule 7: Creditors. The following lines in the schedule should be equal. If they are not equal then the balance sheet will not balance:
  - i line 1(b)(v) will equal line 1(b)(viii);
  - ii line 2(c) will equal line 2(f);
  - iii line 4(d) will equal line 4(g);
  - iv line 5(d) will equal line 5(g);
- c after Schedule 7, capital grants cause the most problems. 'Payments on account' or 'capital debtors' require particular care; and
- d other entries to check whether the two schedules above are correct are:
  - i Schedule 6: Debtors; and
  - ii Schedule 8: Provisions and deferred capital grants.

10 Please note that unrealised gains or losses on assets will be accounted for in Schedule 11: Revaluation reserve.

#### Saving data to disk

11 If colleges should experience any problems with the operation of the workbook, they should contact their local LSC. Colleges will be able to access details of their local LSC office from the LSC website at: [www.lsc.gov.uk/contact/contact.cfm](http://www.lsc.gov.uk/contact/contact.cfm).

### **Installation**

12 The workbooks for the three-year financial plan will be available on the LSC's website ([www.lsc.gov.uk](http://www.lsc.gov.uk)). Colleges will be able to download the workbooks in Microsoft Excel 1997/2000, IE5.0/Windows 95 formats.

### **Website**

13 To download the workbooks from the LSC's website, go to [www.lsc.gov.uk](http://www.lsc.gov.uk). Click on *Documents*, then *Circulars*, and then scroll down to the circular titled *Financial Plans and Associated Data*. Below this, you will need to click on the link for the templates. Colleges will be able to download the spreadsheet as an Excel 1997/2000 IE5.0/Windows 95 workbook (please save the workbook in the same format). Please return the workbook on floppy disk.

### **Form layout**

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

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

### **Saving and exiting forms and schedules**

16 To save information that you have entered or amended, select *Save* from the *File* menu, or select *Close* from the *File* menu. If amendments are made to the workbook, the program will prompt you to save the changes before closing it. You can use your own appropriate file names at this stage. Please ensure that you keep copies of this workbook.

17 Error messages will be shown on the individual forms if all schedules are not completed. These messages are explained in previous sections. It is necessary to save a form or schedule before exiting and the application will prompt you to do so when you try to close the file from a form or schedule. If no amendments are made, the form will close without prompting a save. Amendments made to the form or schedule will be lost if the form or schedule is *not saved*.

## **Printing forms**

18 To print the details of an individual form or of all forms:

- a select *Print* from the *File* menu options;
- b the *Print* option is set up to print sheets individually. If you wish to print all of the worksheets, select *Entire workbook* from the *Print what* option; and
- c click on the *OK* button.

19 The printout will be sent to the current Windows default destination printer. If you wish to confirm or amend the destination printer, select *Print* from the *File* menu options. Check which printer is selected in the name box.

20 To select a different printer, press the arrow to the right of the *Name* box. This will provide you with a drop-down list of all available printers. Select the printer you require.

21 The page set-up default for each form is A4 paper size with portrait orientation.

## **Copying data for return to the Learning and Skills Council**

22 The workbook can be saved on any available secure drive including networked drives (colleges are advised to store copies of the workbook in a safe place, that is, on a backed-up drive, or to save a copy to floppy disk). When complete, the workbook should be saved to floppy disk by selecting *File, Save As*, highlighting drive A: then saving the workbook as *FinPlan03.xls*. *Forward the disk to the Provider Financial Support team at the LSC national office (all other components of the return should be sent to the local LSC office)*. Alternatively, colleges may forward an electronic version of the financial plan disk to the following e-mail address:

[www.pfs.helpdesk@lsc.gov.uk](mailto:www.pfs.helpdesk@lsc.gov.uk).

# Section 2: Notes and Guidance on the Financial Returns 2002/06

(FE Colleges only)

## Introduction

23 This section provides guidance on accounting policies and completing the financial plan schedules and forms. Please also refer to Circular 03/08 *FE Colleges: Accounting Policies and Return of Audited Financial Statements*.

24 Prepare all figures on the accruals basis of accounting, unless otherwise stated. Show all income and expenditure gross. Where boxes are shaded on the forms, the software automatically calculates their value.

## Financial Plan

25 The financial plans are used for a number of purposes. The LSC expects colleges to use the plan for internal planning and monitoring purposes, and reviews each plan alongside the associated data. This is done in order to form an opinion on the financial health of the college and to determine whether there are issues to raise with the college. The LSC also considers whether it agrees with the college's self-assessment of its financial health.

26 The LSC aggregates all financial plans to give a summarised view of the financial health of the sector. This summary is reported to the LSC's National Council and is used to provide a benchmark for colleges in the sector. It also provides a basis for advice to the Secretary of State for Education and Skills.

27 It is important that a college's financial plan presents a realistic view of its position so that the LSC has an accurate picture of the financial health of the sector. The LSC also uses the aggregate data to respond to occasional queries from colleges and the Department for Education and Skills (DfES).

## Details

28 Please enter the college's details, that is, name, college code and payment code in the relevant cells on the 'Details' worksheet.

## Form 1: Income



29 The financial plan requires colleges to analyse income sources and movements in these income sources. Income is split into the following:

- funding council grants;
- tuition fees and education contracts;
- research and contracts income;
- other income; and
- endowment and investment income.

30 Income from catering, residences, conferences, farming activities and other subsidiary activities are compared with the cost to see if these activities are subsidised or contribute to fixed costs. The contribution is calculated and recorded on Schedule 14B.

31 *Line 1, Funding council grants*

This will include:

- a LSC grants:
  - i recurrent grant, including growth allocation from Schedule 1A;
  - ii work-based learning, including income from youth training (YT), employment training (ET), income from youth credits and trainee allowances;
  - iii release of capital grants – this line is calculated automatically by the application from Schedule 2, lines 5(a) and 5(d). It matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by LSC capital grants). This covers capital grants from the LSC only. Capital grants from the Higher Education Funding Council for England (HEFCE) and other bodies are included at line 1(b)(iii) and 4(e), respectively.
    - treat funds identified for capital purposes as deferred capital grants and credit them to a deferred capital grant account on the balance sheet. Release the allocation to the income and expenditure account in accordance with Statement of Standard Accounting Practice (SSAP) 4 *Accounting for Government Grants*, to reflect the revenue charges arising from the capital expenditure which the allocation supports. Do this via entries in Schedule 2 to the plan. Also, treat capital payments from other funds as deferred capital grant;
  - iv other LSC income – this includes income from other initiatives such as summer schools, Ufi and the further education (FE) standards fund from Schedule 1B; and
- b HEFCE grants:
  - i recurrent grant, higher education (HE) income: HEFCE – this includes income received direct from the HEFCE for prescribed HE including that

- transferred from LSC income to the college from HE institutions for the provision of HE courses;
- ii franchised and associated providers – income to the college from HE institutions;
- iii release of capital grant – this line is calculated automatically by the application from Schedule 2, line 5(b). It matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by HEFCE capital grants). This covers capital grants from the HEFCE only. Capital grants from LSC and other bodies are included at line 1(a)(iii) and 4(e), respectively;
- iv other HEFCE income.

32 *Line 2, Tuition fees and education contracts*

This will include:

- a European Union (EU):
  - i United Kingdom (UK);
  - ii other EU;
- b non-EU – tuition fees and charges received from learners from outside the EU;
- c HE – tuition fees and charges received for all courses of prescribed higher education;
- d employer-led provision:
  - i dedicated;
  - ii other;
- e local education authority (LEA);
- f New Deal income; and
- g other – include income for courses run for other authorities such as health authorities, and the Home Office (prison education).

33 To assist the LSC to monitor the achievement of targets for employer contributions, we ask colleges to record separately tuition fees for employer-led provision and, as a subset of this, fees for dedicated employer provision. Include in these headings the fees associated with learners recorded on the individualised student record in any of the following fields:

- S16 major source of tuition fees as employer code (3);
- Q09 major source of tuition fees as employer code (3);
- Q13 franchised-out arrangements codes (22) and (23); and
- Q35 employer role as employed and released by the employer to study a vocational qualification relevant to that employer (1), attending dedicated employer.

34 *Line 3, Research grants and contracts*

This will include:

- a i European funds – revenue grant income from European structural funds. Include the release of European Regional Development Fund (ERDF) capital grants in line 2. Colleges receiving funds before incurring the cost relating to the grant will match the income and expenditure in their financial plan by crediting current liabilities with the unexpended proportion of the grant;
- a ii repayment of funds – this will include repayments of European funding as a *negative* figure. Disclose the type of European funding, for example, European Social Fund (ESF), in the commentary; and
- b 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.

35 *Line 4, Other income*

- a catering, residence and conferences – income from catering, residences and conferences. Enter surpluses paid to the college from contracted-out services here;
- b farming activities – income from farm operations;
- c other income-generating activities – income not covered under other headings in respect of services rendered to outside bodies. This item will cover income from consultancy and any other non-teaching-related activity not already identified separately;
- d profits/losses from subsidiary companies not consolidated – agree the accounting treatment of subsidiary companies with the college’s auditors. Note that materiality is not an appropriate reason for non-consolidation of accounts. The profit or loss from any other partnership arrangements should also be included in this line;
- e release from deferred capital grants (non-LSC and HEFCE) – this is automatically calculated from Schedule 2; and
- f miscellaneous income (excluding investments) – this will include all other sources of income not shown elsewhere and income from training restaurants and bars, beauty treatments, learner stationery sales, income from educational visits, value added tax (VAT) and rates recovered, conference income, nursery, gym and sundry income (that is, library).

36 *Line 5, Endowment and investment income*

- a investment income – include income earned on restricted endowments to the extent that the income is spent on capital or revenue items; and
- b interest receivable – include interest from all sources.

37 *Line 6, Total income*

This is the sum of lines 1 to 5.

38 *Line 7, Total expenditure*

This is taken from Form 2B.

39 *Line 8, Surplus/(deficit)*

Total income less total expenditure (line 6 less line 7); also known as the operating surplus or deficit. This is shown before and after taxation and excluding asset transactions. The taxation charge is recorded on Form 2A: Non-pay expenditure.

40 *Line 9, Surplus/(deficit) on asset disposals*

This line shows the surplus/(deficit) on assets disposals, net of any disposal expenses.

41 *Line 10, Surplus/(deficit) on continuing operations after depreciation of assets at valuation, disposal of assets and tax*

This line shows the surplus/(deficit) excluding asset transactions after taxation (line 8(b), surplus/(deficit) after tax plus line 9, surplus/(deficit) on asset disposals).

**Appropriation of surplus/(deficit)**

42 *Line 11, Surplus/(deficit) on continuing operations after tax*

See line 10.

43 *Line 12, Transfer (to)/from revaluation reserves*

The sum transferred from the revaluation reserve to the income and expenditure account to balance the depreciation charge on revalued assets, and to release from the revaluation reserve any sums related to assets disposed of in the period.

44 *Line 13, Historic cost surplus/(deficit)*

Surplus or deficit in the year after transfer to, or from, the revaluation reserve (line 10 plus line 11).

45 *Line 14, Balance brought forward on income and expenditure account*

The college's general funds carried over from the previous period, as set out in its audited accounts.

46 *Line 15, Historic cost surplus/(deficit)*

See line 13.

47 *Line 16, Transfer (to)/from restricted reserves*

Include any sums brought back from restricted reserves to match specific items of expenditure and all appropriations of income to restricted reserves.

All such transfers to, or from, reserves must be explained in the commentary.

48 *Line 17, Transfer (to)/from designated reserves*

Include sums brought back from designated reserves to match specific items of expenditure and all appropriations of income to designated reserves.

Explain all such transfers to, or from, reserves in the commentary.

49 *Line 18, Surplus/(deficit) carried forward to the income and expenditure account*

This is the sum of lines 14, 15, 16 and 17.

## **Form 2A: Non-pay expenditure**

50 A similar breakdown of information is requested for non-pay and pay expenditure using the broad headings of teaching, other support, administration and premises. The analysis assists the LSC in responding to queries on teaching costs versus administration costs. We also use the analysis to prepare benchmarking data for colleges on levels of expenditure. The LSC refers to the financial plans when considering college applications for capital projects, to assess the impact on expenditure and efficiency.

51 Form 2A is for recording non-pay expenditure, including:

- materials;
- consumables;
- uncapitalised equipment;
- stationery;
- travel and subsistence;
- postage;
- telephone charges;
- books and periodicals;
- copyright licences;
- advertising;
- relocation contributions;
- consultancy fees;

- insurance; and
- revenue building works.

Include these in the appropriate expense categories below.

52 *Line 1, Teaching departments*

This item will cover all revenue expenditure on teaching and demonstration, such as equipment maintenance, stationery, transport, field trips and open learning costs.

53 *Line 2, Teaching support services*

This item will cover the cost of centrally-organised services which provide teaching support to all learners, including:

- 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 their 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;
- learner support;
- 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;
- general support fund payments; and
- residential bursary payments.

54 *Line 3, Other support services*

This will include:

- staff training (including costs of seminars);
- print services;

- expenditure on facilities such as theatres and galleries, except those run by teaching departments which will be included in line 1;
- curriculum development costs; and
- nursery, work placements.

55 *Line 4, Administration and central services*

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 that are covered at line 16 below);
- legal and audit fees;
- insurance premiums other than buildings insurance that is covered at line 6(a) below;
- 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; and
- administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.

56 *Line 5, General education expenditure*

This will include:

- marketing – overseas learner recruitment costs, publicity and promotion including course advertising, prospectuses and market research, except where these are charged directly to college teaching departments; and
- examination costs.

57 *Line 6, Premises*

Please show:

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

58 *Lines 7 to 9, Other income-generating activities, catering, residences and conferences and farming activities*

The costs shown under these three headings will be the marginal costs of providing the activities that generate the corresponding streams of income shown in Form 1. Where catering services are contracted out, enter any subsidy here. Marginal costs in these cases are defined as additional costs incurred in order to secure the income.

59 *Line 10, Franchising provision costs*

Include all franchising provision payments other than staff in this heading. Provide an account of significant franchising arrangements in the commentary.

60 *Line 11, Miscellaneous*

This includes costs not shown elsewhere and will include trainee allowance costs where the college acts as the managing agent. Colleges should avoid charging items to this heading wherever possible and need to explain any costs charged here in the commentary. Other expenses to be included are as follows:

- provision for bad debts;
- costs for training restaurants and hair and beauty salons; and
- revaluation loss on equipment financed by grant.

61 *Line 12, Depreciation*

These lines are calculated automatically from Schedule 5.

62 *Line 13, Interest on SSAP 24 provision*

Interest on SSAP 24 provisions brought forward from Schedule 8.

63 *Line 14, Other interest payable*

Include interest on long-term loans, bank overdrafts and local authority deficit loans.

64 *Line 15, Taxation*

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

65 *Line 16, Total non-pay expenditure*

This is the sum of lines 1 to 15.

66 *Line 17, Premises area (m<sup>2</sup>)*



Please enter the area of the college's premises in this line. Without this figure the premises cost per m<sup>2</sup> in Schedule 14B, line 2(g) cannot be calculated. Incorrect data may result in adverse and mistaken conclusions being drawn in respect of colleges' estates utilisation, and may hinder capital consent and the processing of support applications.

## **Form 2B: Pay expenditure**

67 Pay expenditure will include the following:

- basic payroll costs;
- overtime and other allowances and additions;
- employers' superannuation costs;
- employers' national insurance contributions (NICs);
- premature retirement costs; and
- redundancy costs.

68 *Line 1, Teaching departments*

Please show the following:

- a teaching – include the cost of staff that teach on courses where the college charges full or partial cost recovery and on short and special courses. Where the effect is material, apportion the costs of teaching staff that split their time between teaching and other income-generating activity (line 8, below) between line 1(a) and line 8 below. Include any costs of staff cover for teaching staff in this line; and
- b other – include pay for other teaching department staff, such as technicians and clerical teaching support staff. Record the costs of departmental staff involved in administrative tasks such as registry, procurement or finance under administration and central services.

69 *Line 2, Teaching support services*

This will include the costs of any staff predominantly employed for:

- libraries – the cost of all employees, wholly or mainly engaged in library duties (or with other learning support centres under the control of the library);
- computer- and resource-based learning centres – the cost of staff that are managing and running such centres. The cost of staff engaged in administrative computing work will be shown under line 4;
- additional support – the cost of staff providing additional support to individual learners over and above the programme activities included in a standard learning programme. This could include literacy or numeracy support, counselling, teachers of the deaf, Braille support and communicators/interpreters;

- learner guidance on enrolment;
- learner support, including the cost of administering access funds; and
- college nurses, learner welfare officers, recreation tutors, accommodation officers, careers officers and counsellors.

70 *Line 3, Other support services*

This will include:

- staff training costs – the directly identifiable costs of staff training and development, including the cost of staff tutors and their support staff;
- print services staff, student union staff (if the student union is not a separate legal entity) and curators;
- nursery staff; and
- work placement team reception.

71 *Line 4, Administration and central services*

Include the pay and costs of other emoluments of staff such as the principalship, the directorate and support staff, such as finance, personnel and administrative staff. This also includes:

- management information systems (MIS);
- registry (examinations);
- computer maintenance and software development;
- staff involved in fundraising and community-focused roles;
- data input staff;
- work-based learning and New Deal administration costs;
- timetabling staff; and
- quality unit.

72 *Line 5, Premises*

This will include:

- a running costs – the cost of cleaning, caretaking and security staff; and
- b maintenance – the cost of staff engaged on routine and long-term maintenance, including the salaries of health and safety officers.

73 *Lines 6 to 8, Other income-generating activities, catering, residences and conferences and farming activities*

Lines 6, 7 and 8 will include all relevant pay-related costs on the same basis as in Form 2A, lines 7 to 9. Where teaching staff carry out consultancy contracts, separately identify costs.

74 *Line 9, Franchising provision costs*

Include franchising provision pay costs of the college's own employees under this heading. Provide an account of significant franchising arrangements in the commentary.

75 *Line 10, Miscellaneous*

Include any staff costs not included in previous lines. Please provide an analysis of amounts making up this line. If there are any staff costs associated with training restaurants or hair and beauty salons which are linked to income generation, then they will be included here.

76 *Line 11, Contracted tuition services*

This will include the pay costs of agencies used for providing tuition services.

77 *Line 12, Total pay expenditure before restructuring*

This is the sum of lines 1 to 11. This line is used in calculating ratios.

78 *Line 13, Staff restructuring*

This will include:

- a initial cost – include all staff-related initial payments in respect of restructuring (redundancy compensation and enhanced lump sum payments); and
- b SSAP 24 provision – this is the provision for any enhanced pension entitlement given and any provision necessary due to the underfunding of the college's liability under the Local Government Superannuation Scheme (LGSS). The split of costs under this heading should be detailed in the commentary.

Colleges undertaking a staff restructuring scheme, where enhanced pensions are granted, will be required to calculate a provision for future pension costs as described in SSAP 24 *Accounting for Pension Costs*. This provision should appear on line 13(b). The provision required is automatically entered for all periods from entries made on Schedule 8.

Colleges should record any payments of enhanced pension costs and the interest payable on the SSAP 24 provision on Schedule 8.

Guidance on calculating SSAP 24 provisions is contained in Supplement B to Circular 03/08 *FE Colleges: Accounting Policies and Return of Audited Financial Statements*.

79 *Line 14, Total pay expenditure after restructuring*

This is the sum of lines 12, 13(a) and 13(b).

80 *Line 15, Total non-pay expenditure*

Line 16 from Form 2A.

81 *Line 16, Total expenditure*

This is the sum of lines 14 and 15.

82 *Lines 17 and 18, Number of staff (excluding contract tuition service staff)*

Enter the number of teaching staff (that is, those staff whose costs are included in line 1(a)), and non-teaching staff (that is, those staff whose costs are included in lines 1(b) to 12 inclusive) in full-time equivalents (FTEs) at lines 17 and 18. It is important that these figures are entered correctly – without them some key indicators cannot be calculated. Please note that contract tuition staff should be excluded from this line.

### **Form 3: Balance sheet**

83 The majority of the entries in the balance sheet are automatically calculated from the supporting schedules.

84 *Line 1, Fixed assets*

The analysis of fixed assets is detailed to allow for ease of calculation. Fixed assets include:

- a inherited land and buildings – the value of land and buildings acquired on vesting day;
- b the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation;
- c the value of all other land and buildings valued at cost or subsequent revaluation;
- d the value of equipment acquired on vesting day;
- e the value of equipment acquired post-vesting day, funded by capital grant and valued at cost;
- f the value of all other capitalised equipment valued at cost or subsequent revaluation;
- g investments held as long-term assets, valued at the lower of cost or market value;
- h other fixed assets; and

i the total of lines 1(a) to 1(h).

85 For the year ended 31 July 2002, lines 1(a) to 1(h) should be entered manually, using the figures in the college's audited financial statements for that year.

86 *Line 2, Current assets*

Current assets include:

- a stocks – the value of stocks such as farm stock at the lower of cost or realisable value;
- b debtors;
- c consisting of:
  - i restricted cash and short-term investments from disposal of fixed assets and held for future fixed assets acquisitions;
  - ii other short-term investments and cash; and  
(this figure should not be negative – overdrafts should be entered in line 3a (see below));
- d the total of lines 2(a) to 2(c).

87 *Line 3, Creditors: amounts falling due within one year*

This includes:

- a overdrafts;
- b other loans falling due for repayment within one year;
- c LEA deficit loan repayable inside one year;
- d trade creditors;
- e amounts due to the Inland Revenue and pension funds;
- f payments on account and deferred income;
- g all other short-term creditors; and
- h the total of lines 3(a) to 3(g).

88 *Line 4, Net current assets/(liabilities)*

Line 2(d) minus line 3(h).

89 *Line 5, Total assets less current liabilities*

Line 1(i) plus line 4.

90 *Line 6, Creditors: amounts falling due after one year*

This includes:

- a loans falling due for repayment after one year;

- b the portion of any LEA deficit loan falling due for repayment after one year;
- c other long-term liabilities; and
- d the total of lines 6(a) to 6(c).

91 *Line 7, Total provisions*

This should include long-term provisions. All entries should be explained in the commentary.

92 *Line 8, Total assets less liabilities*

Line 5 minus line 6(d) minus line 7.

93 *Line 9, Deferred capital grants*

This line is commuted from Schedule 8.

94 *Line 10, Revaluation reserves*

The amount by which tangible fixed assets were revalued, adjusted for sums released to the income and expenditure account and unrealised gains and losses.

95 *Line 11, Restricted reserves*

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.

96 *Line 12, Designated reserves*

The value of funds set aside for specific purposes by the governors, for example, for capital purposes.

97 *Line 13, Income and expenditure account*

The accumulated balance on the income and expenditure account.

98 *Line 14, Total reserves*

The sum of lines 10 to 13.

99 *Line 15, Total (including deferred capital grants)*

The sum of lines 9 and 14.

## **Form 4: Cash flow statement**

100 This schedule calculates a cash flow statement, as required by Financial Reporting Standard (FRS) 1, largely from entries made on other forms and schedules. Colleges may need to make some entries on this form. The entries are as follows.

- Cash is regarded as cash-in-hand, with 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, 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. This is incorporated as a continuation of Form 4.

The reconciliation of the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities is automatically calculated and shown on Schedule 12.

101 *Line 1, Net cash inflow/(outflow) from operating activities*

This shows the net increase or decrease in cash and cash equivalents resulting from operations shown in the income and expenditure account. This is calculated from the surplus/deficit generated in the period by adjusting for:

- depreciation;
- deferred capital grants released to income;
- profit/loss on disposal of fixed assets;
- increase/decrease in stocks;
- interest payable;
- increase/decrease in debtors;
- increase/decrease in trade creditors;
- increase/decrease in tax and pension contributions;
- increase/decrease in other payments on account;
- increase/decrease in other liabilities;
- increase/decrease in provisions; and
- interest receivable.

The software calculates these adjustments automatically and discloses them on Schedule 12.

102 *Line 2, Returns on investments and servicing of finance*

Shows the cash inflow/(outflow) in the period through:

- a interest received;
- b interest paid;
- c interest element of finance lease rental payments; and
- d net cash inflow/(outflow) from returns on investment and servicing of finance (the sum of lines 2(a) to 2(c)).

103 *Line 3, Taxation*

This line needs to be entered manually where appropriate. Include cash flows to, or from, taxation authorities in respect of the institution's revenue and capital surpluses. Deal with cash flows in respect of other taxation, including payments and receipts in respect of VAT within operating activities.

104 *Line 4, Capital expenditure and financial investment*

- a payments to acquire fixed assets – includes all expenditure, irrespective of how the acquisition was financed;
- b receipt from the sale of fixed assets;
- c deferred capital grants received – include all capital grants received in the period, whether from the LSC or any other source; and
- d net cash inflow/(outflow) from capital expenditure – the sum of lines 4(a) to 4(c).

105 *Line 5, Management of liquid resources*

Shows the cash inflow/(outflow) in the period from:

- a withdrawals or disposals – this will be positive;
- b deposits or acquisitions – this will be negative; and
- c net cash inflow/(outflow) from management of liquid resources – the sum of lines 5(a) and 5(b).

106 *Line 6, Financing*

Shows the cash inflow/(outflow) in the period from:

- a new secured loans;
- b new unsecured loans;
- c repayments of amounts borrowed – secured and unsecured loans;
- d repayment of the LEA deficit loan;



- e capital element of finances lease rental payments; and
- f net cash inflow/(outflow) from financing. The sum of lines 6(a) to 6(e).

107 *Line 7, Increase/(decrease) in cash*

This is the sum of lines 1, 2(d), 3, 4(d), 5(c) and 6(f).

108 *Line 8, Reconciliation of net cash inflow/(outflow) to movement in net funds/(debt)*

Shows the change in net debt or net funds during the course of each year:

- a increase/(decrease) in cash – this will equal line 7;
- b cash to repay debt – this will equal the sum of lines 6(c) and (d);
- c cash used to increase liquid resources – this will equal line 5(c);
- d new loans and finance leases – this will equal the sum of Schedule 7, lines 1(b)(ii), 1(b)(iii) and 4(b);
- e change in net funds/(debt) is the sum of lines 8(a) to (d);
- f net funds/(debt) at the beginning of the year – this comes from Schedule 13, line 7 of the previous year; and
- g net funds/(debt) at the end of the year – this comes from Schedule 13, line 7.

Please note that line 8(g) will be the sum of lines 8(e) and 8(f).

### **Form 5: Principal's certificate of reconciliation of movements between years**

109 The purpose of this reconciliation is to attribute the movements in each college's expenditure between years to changes in price and volume. Treat changes in salary costs due to promotions and annual increments as volume variances.

- a Calculate the movement in cost due to volume changes first; attribute the remaining movement to price changes.
- b Measure the changes from 2002/03 to 2003/04 against the column that gives the expenditure for the teaching year 2002/03. Only certain expenditure lines lend themselves to this type of analysis, so exclude movement from the analysis on the following:
  - i non-pay expenditure – depreciation, interest on SSAP 24 provision, other interest payable and taxation; and
  - ii pay expenditure – restructuring costs:
    - initial cost; and
    - SSAP 24 provision and contract tuition services.

### **Non-pay expenditure**

110 *Line 1, Total non-pay expenditure for previous year*

For each year this is the total relevant non-pay expenditure for the previous year. For example, in line 1 for 2002/03 this is the sum of lines 1 to 11 from Form 2A for the year ending 31 July 2003.

111 *Line 2, Increase/(decrease) in year attributable to volume changes*

Show the cost of volume changes planned for each year.

112 *Line 3, Increase/(decrease) in year attributable to price changes*

Include the cost of price changes expected for each year. It is expected that this will equal the inflation rates set out in the commentary. If this is not the case, please explain this in the commentary.

113 *Line 4, Total of non-relevant non-pay expenditure in year*

This is calculated as the sum of Form 2A, lines 12, 13, 14 and 15.

114 *Line 5, Total non-pay expenditure planned for the year*

The sum of lines 1 to 4. This figure will be equal to Form 2A, line 16 for the relevant year.

115 *Line 6, Percentage price increase for non-pay expenditure*

The level of non-pay inflation implied by the figures entered in lines 1 to 5.

### **Pay expenditure**

116 *Line 7, Total relevant pay expenditure for previous year*

This is calculated as the sum of lines 1 to 10 of Form 2B.

117 *Line 8, Increase/(decrease) in year attributable to volume changes*

This is the cost of volume changes planned for each year.

118 *Line 9, Increase/(decrease) in year attributable to price changes*

This is the cost of price changes expected for each year.

119 *Line 10, Total of non-relevant pay expenditure in year*

This is calculated as the sum of lines 11, 13(a) and 13(b) from Form 2B.

120 *Line 11, Total pay expenditure planned for the year*

This is the sum of lines 7 to 10. The sum entered here will equal the amount entered at Form 2B, line 14 for the relevant year.

121 *Line 12, Percentage price increase for pay expenditure*

This is the level of pay inflation implied by the figures entered in lines 7 to 11.

122 *Line 13, Has the college revalued its assets since incorporation?*

This is linked to an error message on Form 3. Please enter 'Y' or 'N'.

123 *Line 14, Indicative financial health group*

This line is calculated automatically. Details on how the indicative financial health group is calculated are outlined in Annex C to this circular.

### **College's self-assessment of financial health**

124 The LSC requests colleges to insert their assessment of the most appropriate financial health group for the college on Form 5 (at line 15). Provide comments on the college's decision and any difference to the indicative health group in the commentary.

### **College's budget statement**

125 The LSC requests colleges to state whether or not the plan for 2002/03 is also the budget approved by the corporation for the college in that year, by entering a 'Y' or 'N' in the box provided at line 16. If the plan is not the budget for 2002/03, then state the reasons in the commentary.

### **College's risk management plan**

126 Confirm that the risk management plan complies with the Turnbull Report and the board of governors' approval of the plan by entering 'Y' or 'N' in the box provided at line 17.

### **Principal's certificate**

127 The principal signs Form 5 to indicate that the plan is complete and that the key financial ratios have been reviewed by the governing body. If any part of this form is incomplete or not completed correctly, a message is printed for the principal to sign, stating that the form has not been fully completed.

128 All forms produced by the application have the time and date printed at the foot of the page. The time and date on Form 5 will be the same as the time and date on all other forms and Schedules returned to the LSC. The LSC will ask colleges for another signed copy of their plan if this is not the case.

## **Schedule 1A: Learning and Skills Council funding allocation**

### **Purpose of schedule**

129 This schedule is used to estimate the planned funding allocation to be included in Form 1, and to estimate the learner funding rate (LFR) per FTE.

### **Completion of schedule**

130 This schedule has been amended to reflect the revisions to the funding allocation.

### **Total allocation**

131 *Line 1, Total allocation (£000s)*

Colleges should enter their total allocation, in pounds (£000s), manually for 2002/03, at line 1.

132 *Line 2, Cash baseline allocation (£000s)*

Colleges should enter their cash baseline allocation, in pounds (£000s), manually from 2003/04 onwards.

133 *Line 3, Additional growth to support recovery plan (£000s)*

If the college has been allocated additional growth for recovery plan purposes, for 2003/04 it should enter the figure on this line (this is also given on the 2002/03 initial baseline funding allocation).

Colleges that have included additional growth funds in support of recovery plans should explain this in the commentary to the plan.

134 *Line 4, Funds for exceptional support (£000s)*

If the college has been allocated funds for exceptional support for 2003/04, it should enter the figure on this line (see the 2002/03 initial baseline funding allocation).

Colleges that have funds for exceptional support should explain this in the commentary to the plan.

135 *Line 5, Other baseline funding adjustments (£000s)*

Enter here any adjustments to the baseline funding. Only a small number of colleges should have figures on this line. Reductions in funding should be entered as *negative* figures.

136 *Line 6, Total baseline allocation (£000s)*

This is the sum of lines 2 to 5.

### **Growth funding**

137 *Lines 7 to 11, Growth funding*

Colleges should enter funds associated with overachievement of 16–18-year-old FT growth in 2003/04. Allocations for growth in 2003/04 for 16–18-year-old full-time learner funds, and adult and part-time 16–18-year-old learner funds, should be entered in lines 8 and 9 respectively. Enter any assumed further growth allocation in subsequent years in lines 8 and 9. The model assumes consolidation of the previous year's growth.

138 *Line 12, Additional funds (£000s)*

This calculates the total growth funding (the sum of lines 7 to 11).

### **Area weighting factor**

139 *Line 13, Area weighting factor*

Enter the appropriate area weighting factor for 2002/03 and subsequent years.

### **Uplift for specialist providers**

140 *Line 14, Uplift for specialist providers*

Enter the appropriate uplift for specialist providers for 2002/03 and subsequent years.

### **Learner funding rate**

141 *Line 15, Learner funding rate*

This is automatically calculated by the model. Total allocation divided by total planned FTEs.

### **Revenue allocation**

142 *Line 16, Adjustment for recovery of funds (£000s)*

Enter any anticipated recovery of funds for previous years.

143 *Line 17, Additional in year allocation (£000s)*

Where a college has received additional funds that will not be consolidated into the baseline for future years, enter these here. The model does not assume consolidation of the previous year's growth.

## **Main allocation**

144 *Line 18, Main allocation (to Form 1)*

This is calculated by the model. Total allocation minus adjustment for recovery of funds minus additional in year allocation.

## **Memorandum lines**

145 Lines 19, 20 and 21 are memorandum lines. Line 19 (planned learner FTEs) is split between (a) 16–18-year-old full-time; and (b) other. Line 21 is franchised provision in pounds (£000s).

146 The publication *Funding Guidance in Further Education 2002/03* sets out the methodology and explanation of how to calculate learner FTEs. This publication is available on the LSC website, under *Documents/other Council documents*.

## **Schedule 1B: Other Learning and Skills Council income**

### **Purpose of schedule**

147 This schedule is used to estimate the amount of other income received from the LSC, and is split into revenue and capital income. The total revenue income received is carried forward to Form 1, line 1(a)(iv).

### **Completion of the schedule**

148 This schedule is included to show the breakdown of other LSC income, as shown in Form 1, line 1(a)(iv) of the plan.

149 *Line 1, Learner support funds*

This is estimated income which is expected to be received from childcare support funds and residential bursaries. Further details are available in Circular 01/12 *FE Childcare Places Grant Programme 2002/03 to 2004/05*.

150 *Line 2, Ethnic minority student achievement grant (section 11)*

This is income received for projects previously carried out under section 11 of the Local Government Act 1966.

151 *Line 3, Basic skills quality initiative*

This is additional income expected for basic skills provision. Further details regarding this fund are available in Circular 02/02 *Quality Improvement*.

152 *Line 4, Individual learning accounts*

This is income received for individual learning accounts.

153 *Line 5, Local initiative fund/local investment and development fund*

This is revenue income expected from the local initiative fund in 2002/03 and from the local investment and development fund from 2003/04 onwards.

154 *Line 6, FE standards fund*

This is income expected from the FE standards fund. Further details regarding this fund are available in Circular 02/02 *Quality Improvement*.

155 *Line 7, ESF co-financing*

This is income revenue received from the LSC from ESF co-financing. If the college is responsible for the grant then ESF income should be shown on line 3(a) of Form 1, European funds.

156 *Line 8, Widening participation strategic partnerships*

This is income expected from these partnerships.

157 *Line 9, Ufi projects*

This is income expected for Ufi projects which is separate from that included at Schedule 1A.

158 *Line 10, Centres of vocational excellence*

This is income relating to the funding of centres of vocational excellence. Further details regarding this fund can be found in Circular 02/08 *Centres of Vocational Excellence*.

159 *Line 11, Teaching pay initiative*

This is income relating to the teaching pay initiative and can only be entered in 2002/03 of the plan.

160 *Line 12, Exceptional support package*

Include any income received from the LSC as part of an exceptional support package.

161 *Line 13, Success for All – infrastructure and equipment*

This is income received as a result of Success for All funding for infrastructure and equipment.

162 *Lines 14 to 15*

These lines should be used for other LSC income which is not covered in the lines above.

163 *Line 16, Other LSC income*

164 *Line 17, Total*

This calculates the total of other LSC income (the sum of lines 1 to 16).

### **Memorandum line for learner support funds**

165 *Line 18, Learner support funds; access funds*

Include access funds here. Access funds income and expenditure should not be included in the college's income and expenditure account as per guidance issued in Supplement D of Circular 03/08 *FE Colleges: Accounting Policies and Return of Audited Financial Statements*.

### **Memorandum table for new capital grant expected cash flows**

166 Include the expected cash flows from these initiatives in this table. This helps the LSC in its planning. Colleges should account for these grants on Schedule 2, as for other capital grants.

167 *Line 19, Childcare places (learner support fund)*

This is income expected from the childcare places fund.

168 *Line 20, Income to support financing of major works*

This is the estimated income to support the financing of major works.

169 *Line 21, Information technology (IT) infrastructure*

This is the estimated income to support the financing of IT for learners.

170 *Line 22, Other LSC capital grants*

This is any other capital grant income from the LSC.

171 *Line 23, Total*

The sum of lines 19 to 22.

172 *Line 24, College spend on Information Learning Technology (ILT)*



Colleges are asked to identify funds (capital and revenue) from any source, expended on ILT. ILT activities can be categorised as follows:

- hardware;
- communications;
- learning materials; and
- training and staff development.

173 *Line 25, Total college spend on ILT*

## **Schedule 2: Funds for capital purposes**

### **Purpose of schedule**

174 This schedule is used to:

- record the amount of capital grants received by colleges;
- ascertain the nature of expenditure made from capital grants received by colleges; and
- calculate the release of capital grants to the income and expenditure account.

### **Completion of schedule**

175 Capital grants are categorised into four types:

- LSC funds for capital purposes expended on equipment;
- major capital works grant received from the LSC;
- LSC funds for capital purposes expended on land and buildings; and
- other capital grants.

*Please note that all revenue lines have been removed from this schedule and a new composite revenue line has been added at 4(c).*

176 Colleges need to analyse:

- how capital grants are received;
- any grants estimated to be unspent at the end of a period;
- grants which are spent in advance of receipt at the end of a period;
- any grants received in a prior period which have been spent in the current period; and
- any grants spent in the current period which are planned to be received in a future period.

177 *Line 1, The details are necessary to calculate the release of capital grant and produce the cash flow statement*

For LSC funds for capital purposes expended on equipment, enter:

- in line 1(a), any expenditure made on equipment from the grant;
- in line 1(b), any grant received in the accounting period that is unspent at the end of that accounting period;
- in line 1(c), any expenditure made on fixed assets, from grants due to be but not yet received;
- in line 1(d), any grants received in a previous period but not spent until the current period – that is, the expenditure is included in 1(a) above in the current period; and
- in line 1(e), any grants spent in a previous period but not received until the current period – that is, the expenditure is included in 1(a) above in the previous period.

Line 1(f) is automatically calculated. Please check that this equals total capital equipment grant received in each period.

178 *Line 2, Colleges that benefit from major capital works grant should enter:*

- in line 2(a), any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;
- in line 2(b), any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;
- in line 2(c), any grant received in the accounting period that is unspent at the end of that accounting period;
- in line 2(d), any expenditure made on fixed assets from grants due to be but not yet received;
- in line 2(e), any grants received in a previous period but not spent until the current period – that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the current period;
- in line 2(f), any grants spent in a previous period but not received until the current period – that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the previous period; and
- in line 2(g), any capital element of retrospective LSC assistance in the year in which the grant is received.

Only a few colleges will need to complete the above part, and most of these only need to complete lines 2(a), 2(b), 2(c) and 2(d).

Line 2(h) is automatically calculated. Please check that this equals total major capital works grant received in each period.

179 *Line 3, LSC funds for capital purposes expended on land and buildings*

Enter:

- in line 3(a), any expenditure made on fixed asset land and buildings for maintenance work or from the grant, even if the expenditure is made in advance of receipt of the grant;

- in line 3(b), any grant received in the accounting period which is unspent at the end of that accounting period – payment on account;
- in line 3(c), any expenditure made, on fixed assets, from grants due to be but not yet received;
- in line 3(d), any grants received in a prior period but not spent until the current period – that is, the expenditure is included in 3(a) above in the current period; and
- in line 3(e), any grants spent in a prior period but not received until the current period – that is, the expenditure is included in 3(a) above in a previous period.

Line 3(f) is automatically calculated. Please check that this equals total minor capital works grant received in each period.

180 *Line 4, Other capital grants (including non-LSC and HEFCE grants)*

- in line 4(a), any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;
- in line 4(b), any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;
- in line 4(c), any revenue elements of capital grants from lines 1, 2, 3 and 4;
- in line 4(d), any grant received in the accounting period that is unspent at the end of that accounting period;
- in line 4(e), any expenditure made, on fixed assets, from grants due to be but not yet received;
- in line 4(f), any grants received in a prior period but not spent until the current period – that is, the expenditure is included in 4(a), 4(b) or 4(c) above in the current period; and
- in line 4(g), any grants spent in a prior period but not received until the current period – that is, the expenditure is included in 2(a), 2(b) or 2(c) above in the prior period (for many colleges this section is not applicable).

Line 4(h) is automatically calculated. Please check that this equals the total of other capital grants received in each period.

181 *Line 5, Release of capital grants, section 5 (lines a to e)*

This is automatically calculated from entries made on this schedule, Schedule 3: Disposal of fixed assets, and Schedule 5: Fixed asset depreciation.

**Treatment of Learning and Skills Council support for a project**

182 LSC support for capital projects is now granted as:

- continued loan support arrangements;
- lump sum commutation of loan support; and
- a lump sum grant over three years.

### Loan support

183 For the first year only, the loan support is shown as major capital works grant in Schedule 2, line 2(a), funds for capital purposes. For the first year only, the total cost of the project, net of the first year's capital element, is shown as other land and buildings additions.

184 In subsequent years, LSC support is shown as retrospective LSC assistance in line 2(g) of Schedule 2. The software makes all further adjustments automatically.

### Commutated support

185 For planning purposes, colleges should assume that commuted support will be paid over three years in three equal instalments. In year one, show the lump sum commuted support as retrospective LSC assistance (Schedule 2, line 2(g)), with the commuted support to be received in years two and three shown as a LSC debtor (Schedule 2, line 2(d)). The actual commuted support received in years two and three should be included in Schedule 2, line 2(f).

### Example – commuted support

186 A college receives a lump sum payment of £300,000 (commuted capital support) to be paid over three years in three equal instalments as follows:

- Year 1: year ending 31 July 2003 – £100,000
- Year 2: year ending 31 July 2004 – £100,000
- Year 3: year ending 31 July 2005 – £100,000

The receipts should be input in the financial plan workbook as follows:

### Schedule 2: Funds for capital purposes

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 2(d), grants claimed and spent but not received (LSC debtor)	200	–	–
Line 2(f), grants expended in prior year received in current year	–	100	100
Line 2(g), capital element of retrospective LSC assistance	300	–	–

The following entries are automatically calculated via the schedules:

**Schedule 4: Fixed asset additions**

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 1(a), total additions cash purchases	300	–	–
Line 2(c), total additions (net of retrospective grants received)	(300)	–	–

**Schedule 6: Debtors**

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 2, LSC capital grants	200	100	–

**Schedule 8: Provisions**

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 1(a), balance b/fwd	–	300	300
Line 1(b), capital grants received	100	100	100
Line 1(c), capital grant debtors	200	–	–
Line 1(h), balance c/fwd	300	300	300

**Form 3: Balance sheet**

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 1(b), land and building financed by capital grant	300	300	300
Line 1(c), other land and buildings	(300)	(300)	(300)
Line 2(b), debtors	200	100	–
Line 2(c)(ii), cash (manual entry)	100	200	300
Line 9, deferred capital grant	300	300	300

**Form 4: Cash flow statement**

	2002/03	2003/04	2004/05
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	£000s	£000s	£000s
Line 4(c), deferred capital grants received	100	100	100
Line 7, increase/(decrease) in cash	100	100	100
Line 8(g), net funds/(debt) at end of year	100	200	300

The £100,000 is also automatically input at lines 4(d), 8(a), 8(e) and 8(f).

### Capital grant

187 For year one, show the grant received in year as major capital works grant in line 2(a) of Schedule 2. Record the total cost of the project, net of grant in other land and building additions (Schedule 4, line 2(a)). In years two and three, enter grants claimed and spent but not received in Schedule 2, line 2(d) and enter any grants expended in the prior year but received in the current year in Schedule 2, line 2(f).

### Example – capital grant

188 A college has a capital project approved by the LSC with capital support of 35% on its eligible project cost of £1 million. The capital support of 35% (£350,000) will be paid by the LSC over three years on support of evidence from the college that the expenditure has been made. The maximum that the college can claim will be as in Table 1.

**Table 1. Capital project grant.**

Year		%	£
1	2002/03	10.0	100,000
2	2003/04	12.5	125,000
3	2004/05	12.5	125,000
<b>Total</b>		<b>35.0</b>	<b>350,000</b>

The capital project eventually costs the college the estimated £1 million to be built. However, the building costs are spread evenly over two years as in Table 2.

**Table 2. Building costs.**

Year		Project costs		Capital Grant
		£	%	£
1	2002/03	500,000	35.0	175,000
2	2003/04	500,000	35.0	175,000

<b>Total</b>			<b>35.0</b>	<b>350,000</b>
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The transactions should be recorded as follows:

#### **Schedule 2: Funds for capital purposes**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Line 2(a), expenditure	175	175	–
Line 2(d), claimed and spent but not received	75	125	–
Line 2(f), grants expended in prior year, received in current year	–	75	125
Line 2(h), total	100	125	125

The following entries are automatically input via the schedules:

#### **Schedule 4: Fixed asset additions**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Line 1(a), total additions – cash	175	175	–
Line 2(a), additions – (cash manual entry)	325	325	–

#### **Schedule 6: Debtors**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Line 2, LSC capital grants	75	125	–

#### **Schedule 8: Provisions**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Line 1(a), balance b/fwd	175	350	–
Line 1(b), capital grants received	100	125	125
Line 1(c), capital grant debtors	75	125	–
Line 1(e), grants expended in prior year, received in current year	75	125	–
Line 1(h), balance c/fwd	175	350	350

### Form 3: Balance sheet

The majority of the entries on Form 3 and Form 4 are calculated automatically via the schedules.

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 1(b), L&B financed by capital grant	175	350	350
Line 1(c), other L&B	325	650	650
Line 2(b), debtors	75	125	–
Line 2(c)(ii), cash (manual entry)	(400)	(775)	(650)
Line 9, deferred capital grants	175	350	350

### Form 4, cash flow statement

	2002/03	2003/04	2004/05
	£000s	£000s	£000s
Line 4(a), payments to acquire fixed assets	(500)	(500)	–
Line 4(c), deferred capital grants 100 received	125	125	–
Line 4(d), net cash inflow/(outflow) from capital expenditure	(400)	(375)	125
Line 7, increase/(decrease) in cash	(400)	(375)	125
Line 8(e), change in net funds/(debt)	(400)	(375)	125
Line 8(f), net funds/(debt) at beginning of year	0	(400)	(775)
Line 8(g), net funds/(debt) at end of year	(400)	(775)	(650)

### Schedule 3: Disposal of fixed assets

#### Purpose of schedule

189 This schedule records:

- the sales proceeds received from disposal of fixed assets;
- the initial cost or valuation of the fixed assets which were sold; and
- the accumulated depreciation at the date of disposal of assets.

#### Completion of schedule



190 For the 12-month accounting period to 31 July 2003 and three financial plan years to 31 July 2004, 31 July 2005 and 31 July 2006, colleges should enter, for each category of fixed asset:

- the sale proceeds received from disposal of fixed assets in lines 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), 7(a) and 8(a);
- the valuation of inherited fixed assets disposed of in lines 1(b) and 4(b);
- the initial cost or subsequent valuation of those fixed assets disposed of which were acquired after 1 April 1993 in lines 2(b), 3(b), 5(b), 6(b), 7(b) and 8(b);
- the accumulated depreciation at date of disposal of assets in lines 1(c), 2(c), 3(c), 4(c), 5(c), 6(c) and 8(c).

Information entered onto this schedule is used in:

- Form 3: Balance sheet, lines 1(a) to 1(h), to calculate fixed asset values;
- Form 4: Cash flow, line 4(b), to calculate cash received from the sale of fixed assets;
- Schedule 2: Capital grants, line 5(g), release of capital grants on assets disposed;
- Schedule 11: Revaluation reserve, line 8, transfer to income account in the current period – net book value of disposed inherited fixed assets; and
- Schedule 12: Cash flow reconciliation, line 4, profit/(loss) on disposal of fixed assets.

191 Colleges are reminded that any surplus or deficit on disposals of fixed assets should be recorded on Form 1, line 9.

### Example

192 During 2002/03, a college sells inherited land and buildings for £50,000. At 1 April 1993 these assets were valued at £45,000 and at the date of disposal were depreciated by £5,000. During 2003/04, equipment financed by capital grant is scrapped (nil sales proceeds). The equipment had initially cost £10,000 and had been depreciated by £7,000.

#### **Extract from Schedule 3 following entry of these transactions**

	Year ended 31 Jul 2003 £000	Year ended 31 Jul 2004 £000
Inherited land and buildings		
1(a) Sale proceeds	50	–

1(b) Valuation at 1 April 1993	45	–
1(c) Accumulated depreciation at date of disposal	5	–
5 Equipment financed by capital grant		
a Sale proceeds	–	0
b Cost or valuation	–	10
c Accumulated depreciation at date of disposal	–	7

---

At Form 1, line 9, a surplus on disposal of fixed assets of £10,000 would be recorded in 2002/03 and a loss of £3,000 would be recorded in 2003/04.

## Schedule 4: Fixed asset additions

### Purpose of schedule

193 This schedule is used to record additions to fixed assets purchased from cash, and to record additions to fixed assets financed by finance leases.

### Completion of schedule

194 For the 12-month accounting period to 31 July 2003 and three financial plan years to 31 July 2004, 31 July 2005 and 31 July 2006, colleges should enter:

- additions to other land and buildings, other equipment, investments and other assets purchased from cash in lines 2(a), 4(a), 5(a) and 6(a); and
- additions to other land and buildings, other equipment, investments and other assets financed by finance leases in lines 2(b), 4(b) and 6(b).
- additions to assets financed by capital grants are automatically calculated from entries made on Schedule 2, lines 1(a), 2(a), 2(b), 3(a), 4(a) and 4(b). It is not possible to add to inherited fixed assets.

195 If retrospective LSC assistance is received for a capital project for the period in which the retrospective grant is received, the figure for 2(c), total additions, will be quoted net of retrospective capital grant.

### Example

196 During 2002/03, a college purchases equipment (categorised as other equipment) for £20,000. This purchase is made using a finance lease. During 2003/04, other fixed assets are purchased from cash at a cost of £30,000.

### Extract from Schedule 4 following entry of these data

---

Year ended

Year ended

		31 July 2003	31 July 2004
		£000	£000
<b>4</b>	<b>Other equipment</b>		
	a Additions – cash purchases	–	–
	b Additions – financed by finance leases	20	–
	c Total additions	20	–
<b>6</b>	<b>Other</b>		
	a Additions – cash purchases	–	30
	b Additions – financed by finance leases	–	–
	c Total additions	–	30

## Schedule 5: Fixed asset depreciation

### Purpose of schedule

197 This schedule is used to record depreciation provided on all categories of fixed asset, including depreciation on revalued assets.

### Completion of schedule

198 Colleges are required to enter a depreciation provision, based on cost or the revalued amount, for each category of fixed asset in all accounting periods. Totals are calculated for depreciation on inherited assets, on assets funded by deferred capital grants (LSC and non-LSC) and other assets. This schedule now includes lines specifically for HEFCE and automatically feeds through to Schedule 2.

199 Information entered onto this schedule is used in:

- Form 3: Balance sheet, lines 1(a) to 1(h), to calculate the net value of fixed assets;
- Form 2A: Non-pay expenditure, line 12, depreciation;
- Schedule 2: Capital grants, lines 5(a), 5(b), 5(c) and 5(d) release of capital grants depreciation on assets funded by capital grants;
- Schedule 11: Revaluation reserve, line 7, transfer to income and expenditure account depreciation on inherited fixed assets for revalued amount; line 30, transfer to income and expenditure account depreciation on other fixed assets for revalued amount; and
- Schedule 12: Cash flow reconciliation, line 2, depreciation.

## **Schedule 6: Debtors**

### **Purpose of schedule**

200 This schedule is used to record and analyse debtors in a way that assists the production of the cash flow statement.

201 *Line 1 includes Learning and Skills Council recurrent funding.*

202 *Line 2, Learning and Skills Council capital grants, and line 3, other capital grants*

These are automatically calculated from entries made on Schedule 2: Capital grants, lines 1(c), 2(d), 3(c) and 4(e) for each of the accounting periods after 31 July 2003.

## **Schedule 7: Creditors**

### **Purpose of schedule**

203 This schedule is used to record and analyse creditors.

204 *Line 1, Bank overdrafts and loans*

Enter bank overdrafts at line 1(a). For loans, enter:

- in line 1(b)(i), in the 31 July 2002 column, any balance outstanding on loans at that date;
- in line 1(b)(ii), any new secured loans taken out in the period;
- in line 1(b)(iii), any new unsecured loans taken out in the period; and
- in line 1(b)(iv), any repayment of loan capital made in the period.

Line 1(b)(v), total loans, is automatically calculated.

To comply with standard accounting practice, colleges should analyse the total loans outstanding at line 1(b)(v) between those repayments falling due within one year and those falling due after more than one year. The analysis should be entered at lines 1(b)(vi) and 1(b)(vii). A total is automatically calculated at line 1(b)(viii).

Lines 1(b)(v) and 1(b)(viii) should be equal.

205 *Line 2, for LEA deficit loan*

Enter:

- in line 2(a), in the 31 July 2002 column, any balance outstanding on LEA loan deficit at that date; and
- in line 2(b), any repayment of loan capital made in the period.

Line 2(c), total LEA deficit loan, is automatically calculated.

Colleges should analyse the total LEA deficit loan outstanding at line 2(c) between those repayments falling due within one year and those falling due after more than

one year. The analysis should be entered at lines 2(d) and 2(e). A total is automatically calculated at line 2(f). Lines 2(c) and 2(f) should be equal.

#### 206 *Line 3, Payments on account*

For payments on account, enter:

- in line 3(a), in the 31 July 2002 column, any capital grants payments on account; and
- in line 3(b), any other payments on account;

Line 3(c), total payments on account, is automatically calculated.

#### 207 *Line 4, Finance leases*

For finance leases, enter:

- in line 4(a), in the 31 July 2002 column, any balance outstanding on finance leases at that date;
- in line 4(b), any new finance leases taken out in the period; and
- in line 4(c), the capital element of any finance lease payments made in the period.

A total is automatically calculated at line 4(d).

Colleges should analyse lease payments falling due within one year at line 4(e) and those falling due after more than one year at line 4(f). A total is automatically calculated at line 4(g). Lines 4(d) and 4(g) should be equal.

#### 208 *Line 5, Other liabilities*

For other liabilities, enter:

- in line 5(a), any recovery of LSC funds relating to the period;
- in line 5(b), any interest payable at 31 July which is unpaid at that date; and
- in line 5(c), any other liabilities.

Line 5(d), total other liabilities, is automatically calculated.

Colleges should analyse the total other liabilities outstanding at line 5(d) between those repayments falling due within one year and those falling due after more than one year. The analysis should be entered at lines 5(e) and 5(f). A total is automatically calculated at line 5(g). Lines 5(d) and 5(g) should be equal.

## **Schedule 8: Provisions**

### **Purpose of schedule**

209 This schedule records movements in provisions and period end balances on provisions.

### **Completion of schedule**

210 Most of this schedule is calculated from information entered on other forms and schedules. For deferred capital grants, line 1, only enter figures for the 31 July 2002 balance sheet in:

- line 1(a), balance brought forward;
- line 1(b), capital grants received;
- line 1(e), grants expended in prior year received in current year;
- line 1(f), grants received in prior year expended in current year; and
- line 1(g) capital grants released to income and expenditure account in period.

All other information is automatically calculated.

211 For SSAP 24 provision, line 2(a), enter:

- in line 2(a)(i), any balance brought forward at 1 August 2002;
- in line 2(a)(ii), any provision made in the period;
- in line 2(a)(iii), the interest due on the provision in the period; and
- in line 2(a)(iv), any expenditure from the provision.

For other provisions, line 2(b), enter:

- in line 2(b)(i), any provision carried forward at 31 July 2002;
- in line 2(b)(ii), any provision made in the period; and
- in line 2(b)(iii), any release of provision.

## **Schedule 9: Finance leases**

### **Purpose of schedule**

212 This schedule analyses payments made under finance leases between the capital element and interest element.

### **Completion of schedule**

213 Colleges should enter total payments made under finance leases into line 3. The capital element of the repayment, line 1, is automatically included from the entry made on Schedule 7: Creditors, line 4(c). The interest element of payments made under line 2, finance leases, is automatically calculated as line 3 less line 1.

### **Example**

214 A college has continued obligations under finance leases and hire purchase agreements of £10,000 in 2002/03 and £12,000 in 2003/04, 2004/05 and 2005/06. Repayments of capital are £9,000 during 2002/03 and £10,000 during 2003/04, 2004/05 and 2005/06.

215 In addition, the college has a new three-year finance lease of £54,000, which is forecast to begin in 2002/03. The college has obligations of £20,000 in 2003/04, 2004/05 and 2005/06 in this respect. Repayments of capital are £18,000 in 2003/04 to 2005/06 inclusive.

216 The example requires manual entries in Schedule 9: Finance leases, line 3; Schedule 7: Creditors, lines 4(a) to 4(g); and Schedule 4: Fixed asset additions, line 4(b). The example also affects Form 4: Cash flow (in the financing and reconciliation sections) and Form 3: Balance sheet (in the fixed asset section). The abridged schedules below show the entries described in the example above.

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

#### **Completion of Schedule 9: Finance leases**

	<b>Year ended 31 July 2003 £000</b>	<b>Year ended 31 July 2004 £000</b>	<b>Year ended 31 July 2005 £000</b>	<b>Year ended 31 July 2006 £000</b>
1 Capital element	9	28	28	28
2 Interest element*	1	4	4	4
3 Total finance lease payment	10	32	32	32

*\* please update Form 2A, other interest payable as appropriate*

#### **Completion of Schedule 7: Creditors**

	<b>Year ended 31 July 2003 £000</b>	<b>Year ended 31 July 2004 £000</b>	<b>Year ended 31 July 2005 £000</b>	<b>Year ended 31 July 2006 £000</b>
4 Finance leases				

(a) Finance lease balance				
brought forward	39	84	56	28
(b) New finance leases	54	–	–	–
(c) Capital element of finance lease payments	9	28	28	28
(d) Total finance lease obligations	84	56	28	0
(e) Lease payments falling due within one year	28	28	28	0
(f) Lease payments falling due after one year	56	28	0	0
(g) Total finance lease obligations	84	56	28	0

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#### **Completion of Schedule 4: Fixed asset additions**

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<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>
<b>ended</b>	<b>Ended</b>	<b>ended</b>	<b>ended</b>
<b>31 July</b>	<b>31 July</b>	<b>31 July</b>	<b>31 July</b>
<b>2006</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
4 Other equipment			
a) Additions – cash purchases	–	–	–
–			
b) Additions – financed by finance leases	54	–	–
–			
c) Total additions	54	0	0
0			

---

#### **Schedule 10: Analysis of pay expenditure**

##### **Purpose of schedule**



218 This schedule is used to obtain an analysis of pay expenditure between permanent staff, other staff and staff restructuring expenditure. This analysis is required in financial statements for the sector and is also used for benchmarking.

### **Completion of schedule**

219 For each of the accounting periods, colleges will analyse total pay expenditure from Form 2B, line 14. Enter the analysis of expenditure between permanent staff and other staff into lines 1 and 2. The entry for line 3, contracted tuition service staff, is automatically calculated from data on Form 2B, line 11, contracted tuition services. The entry for line 4, staff restructuring, is automatically calculated from data on Form 2B, lines 13(a) and 13(b), staff restructuring initial cost and SSAP 24 provision.

220 Line 5, total pay expenditure, is automatically calculated as the sum of lines 1 to 4. Reasoned estimates of the expenditure proportion of each category of work are acceptable, but ensure that the total on this form, line 5, is the same as the total pay expenditure for Form 2B, line 14.

## **Schedule 11: Revaluation reserves**

### **Purpose of schedule**

221 This schedule is used to record movements in the revaluation reserve.

### **Completion of schedule**

222 The schedule is split into the following categories of assets:

- inherited land and buildings;
- inherited equipment;
- land and buildings financed by capital grant;
- equipment financed by capital grant;
- other land and buildings;
- other equipment;
- investments; and
- other fixed assets.

223 Lines 1 to 10 of the schedule cover the movements in the revaluation reserve for inherited land and buildings and equipment.

224 *Line 1, Inherited land and buildings brought forward*

This is the value of inherited land and buildings brought forward.

225 *Line 2, New inherited land and buildings revaluations*

The entry discloses new revaluations for inherited land and buildings.

226 *Line 3, Inherited equipment brought forward*

This is the value of inherited equipment brought forward.

227 *Line 4, New inherited equipment revaluations*

This is new revaluations for inherited equipment.

228 *Line 5, Total inherited fixed asset revaluations*

This is the sum of lines 1 to 4.

229 *Line 6, Accumulated transfers to the income and expenditure account brought forward for inherited fixed assets*

This is the accumulated transfers (depreciation) to the income and expenditure account brought forward for all inherited fixed assets.

230 *Line 7, Transfer to income account in current period – depreciation on inherited fixed assets for revalued amount*

This line is automatically calculated (Schedule 5, line 3, total depreciation on inherited assets).

231 *Line 8, Transfer to income account in the current period – net book value of disposed inherited fixed assets*

This line is automatically calculated (Schedule 3, line 1(b) minus line 1(c) plus line 4(b) minus line 4(c)).

232 *Line 9, Unrealised gain/(loss) on inherited land and buildings*

This is the unrealised gain or loss on inherited land and buildings.

233 *Line 10, Unrealised gain/(loss) on inherited equipment*

This is the unrealised gain or loss on inherited equipment.

234 In lines 11 to 28, enter revaluations brought forward and new revaluations for:

- land and buildings financed by capital grant;
- equipment financed by capital grant;
- other land and buildings;

- other equipment;
- investments; and
- other fixed assets.

235 The sum of revaluations brought forward and new revaluations, for each category of asset, is calculated automatically.

236 Please note that in lines 29, 30, 31 and 32 the term 'other fixed assets' includes all the categories of fixed assets listed in paragraph 224 above.

237 *Line 29, Accumulated transfers to the income and expenditure account brought forward for other fixed assets*

This is accumulated transfers to the income and expenditure account brought forward for other fixed assets.

238 *Line 30, Transfer to income account in current period – depreciation on other fixed assets for revalued amount*

This line is automatically calculated (the sum of lines 9 and 15 from Schedule 5).

239 *Line 31, Transfers to income and expenditure account in the current period – revaluation portion of the net book value of disposed other fixed assets*

This is the revaluation portion of the net book value of disposed other fixed assets.

240 *Line 32, Unrealised gain/(loss) on other fixed assets*

This is the unrealised gain or loss on other fixed assets.

241 *Line 33, Revaluation reserve balance*

This line is calculated automatically from figures entered in Schedule 11 (line 5 minus lines 6, 7 and 8, plus lines 9, 10, 13, 16, 19, 22, 25, 28, minus lines 29, 30 and 31 plus line 32).

### **Example**

242 Schedule 11 is revised in order to allow for revaluations of assets acquired since incorporation and further revaluation of inherited assets. An example is set out below of how to account for a revaluation of assets and subsequent disposal.

**A college holds the following assets that it revalues at 31 July 2003:**

	<b>Net book value of assets at 31 July 2003</b>	<b>Depreciation charge in year to 31 July 2003</b>	<b>Revaluation at 31 July 2004</b>	<b>Amount of revaluation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Inherited land and buildings<sup>†</sup></b>	400	20	500	120(a)
Land and buildings financed by capital grant	200	10	250	60(b)
Other land and buildings	200	20	250	70(c)
Inherited equipment*	50	10	30	(10)(d)
Equipment financed by grant	200	10	150	(40)(e)
Other equipment	600	100	500	0
Other assets	30	5	25	0
<b>Total</b>	<b>1680</b>	<b>175</b>	<b>1705</b>	<b>200</b>

*† valuation at 1 April 1993 £600,000 (f) less depreciation £200,000 (g)*

*\* valuation at 1 April 1993 £100,000 (h) less depreciation £50,000 (i)*

The net book value at 31 July 2003 will be entered on Form 3 as normal. The depreciation charge for 2003 will be recorded on Schedule 5 as normal.

**The revaluation will be recorded as follows:**

**Schedule 11**

<b>Line</b>		<b>£000</b>
1	Inherited land and buildings brought forward	600(f)
2	New inherited land and building revaluations	120(a)

3	Inherited equipment brought forward	100(h)
4	New inherited equipment revaluations	(10)(d)
5	Total inherited fixed asset revaluations above	810 total of 1 to 4
6	Accumulated depreciation transfers to income and expenditure account brought forward for inherited assets	(250)(g) plus (i)
7	Transfer to income and expenditure account depreciation on inherited assets	(30) from
Schedule 5		
12	New land and buildings financed by capital grant revaluations	60(b)
18	New other land and buildings revaluations	70(c)
33	Revaluation reserve balance	660 total

**Form 2a**

**£000**

Line

11	miscellaneous	40(e)
-		

**Schedule 3**

Line

£000

5b	cost or valuation	40(e)
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These two entries cover the revaluation loss on equipment financed by grant that will be taken to the income and expenditure account. The revaluation loss on inherited equipment can be taken to the revaluation reserve, as there is an existing revaluation gain for these assets.

Depreciation on the revalued amount will then be recorded as follows:

**Year ended**

**31 July 2003**

**£000**

Inherited assets on Schedule 5 as previously

– line 1 (assuming 20 years' remaining life)

25

– line 2 (assuming 3 years' remaining life)	10
Land and buildings financed by grant	
Schedule 5	
– line 4(a), depreciation cost	10
– line 4(b), depreciation on revalued amount (assuming 20 years' remaining life before and after revaluation)	3
Equipment financed by grant	
Schedule 5	
– line 7(a), depreciation on cost	30
(entry on this line only as no release from revaluation reserve)	
(assuming 5 years' remaining life)	
Other land and buildings	
Schedule 5	
– line 13(a), depreciation on cost	10
– line 13(b), depreciation on revalued amount (assuming 20 years' remaining life before and after revaluation)	3

The college then disposes of the following assets in 2003/04:

- inherited land and buildings valued at £250,000 (that is, 50% of the inherited assets) in 2003 for proceeds of £150,000;
- other land and buildings valued at £100,000 (that is, 40% of the other land and buildings) in 2003 for £200,000.

The following entries are needed:

### Schedule 3

Line	Year ended	
	31 July 2004	
	£000	
1(a) Sale proceeds	150	
1(b) Valuation	250	
1(c) Accumulated depreciation	13	(1)
3(a) Sale proceeds	200	
3(b) Valuation	100	
3(c) Accumulated depreciation	4	(2)

### Form 1

Line	£000
9 surplus/(deficit) on asset disposals	17

(loss on (a) of £87,000 and profit on (b) of £104,000)

50% of the charge at paragraph 311(a), line 1

40% of charge at paragraph 311(d), line 9a

### Schedule 11

Line	£000
31 transfer to income account in current period	28
– revaluation portion of net book value of disposed other fixed assets (40% of figure c)	

### Form 3

Line	£000
2(c)(ii) Other cash and short-term investments	350

## Schedule 12: Cash flow reconciliation

### Purpose of schedule

243 To reconcile the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities from Form 4: Cash flow statement.

### Completion of schedule

244 This schedule is automatically calculated from entries made on other forms and schedules.

245 Points to note:

- line 1, surplus/(deficit), is taken from Form 1, line 10, surplus/(deficit) on continuing operations after depreciation of assets at valuation, disposal of assets and tax;
- line 7, (increase)/decrease in debtors – excludes any debtors for interest and capital grants;
- line 10, increase/(decrease) in other payments on account – excludes any capital grant debtors;
- line 11, increase/(decrease) in other liabilities – excludes interest creditors and finance lease balances; and
- line 12, increase/(decrease) in provisions – includes total provisions.

## Schedule 13: Analysis of net debt

### **Purpose of schedule**

246 To obtain an analysis of net debt relevant to the cash flow statement, Form 4.

### **Completion of schedule**

247 This schedule is automatically calculated from data entered on:

- Form 3: Balance sheet, line 2(c)(i), restricted cash and short-term investments from disposal of assets and held for future fixed asset acquisitions;
- Form 3: Balance sheet, line 2(c)(ii), other cash and short-term investments;
- Schedule 7: Creditors, line 1(a), bank overdraft;
- Schedule 7: Creditors, lines 1(b)(vi), 2(d) and 4(e); and
- Schedule 7: Creditors, lines 1(b)(vii), 2(e) and 4(f).

Entries cannot be made directly onto this schedule.

248 Information contained on this schedule is used on Form 4: Cash flow statement, lines 8(f) net funds/(debt) at beginning of year and 8(g) net funds/(debt) at end of year.

## **Schedule 14A/B: Ratio analysis**

### **Purpose of schedules**

249 These schedules are used to inform colleges of key financial indicators from the plans prepared. The calculations for each indicator are set out in section 4 of this supplement.

### **Completion of schedules**

250 The income figure used in these schedules is total income, excluding asset transactions (line 6, Form 1) and release of capital grants (line 1(a)(iii), Form 1).

### **Error messages**

251 If any of the schedules or forms are incomplete an error message will appear. *Ignore them until all forms and schedules are completed.* If error messages continue to be displayed after all figures are entered, then investigate the cause.

The error messages are as follows:

- Form 2A: 'please enter your premises area (m2)';
- Form 2B:
  - i 'analysis of pay costs does not equal total pay expenditure Form 2B' – if line 5, Schedule 10 and line 14, Form 2B are not equal in any period;



- ii 'total pay expenditure does not equal Form 2B' – if line 11, Form 5 and line 14, Form 2B are not equal in any period;
  - iii 'total non-pay expenditure does not equal Form 2A' – if line 5, Form 5 and line 16, Form 2A are not equal in any period;
  - iv 'please enter the number of teaching staff (FTEs)';
  - v 'please enter the number of non-teaching staff (FTEs)';
- Form 3:
  - i 'the balance sheet does not balance' – if line 8 and line 15 on Form 3 are not equal in any period;
  - ii 'the total of inherited assets (line 1(a) plus line 1(d)) does not equal the balance on revaluation reserve' – *this error message will only be triggered if the college has answered 'No' to line 13 of Form 5;*
- Form 4:
  - i 'the cash flow statement does not balance for 2003, 2004, 2005 or 2006' – if line 8(e) plus line 8(f) does not equal line 8(g);
- Form 5:
  - i 'insert Y or N to comment on whether the college has revalued its assets';
  - ii 'assign college to health group A, B or C';
  - iii 'insert Y or N to comment on whether the figures for the year ending 31 July 2003 are also the budget for the year ended 31 July 2003 and are approved by the corporation';
  - iv 'insert Y or N to confirm that the college's risk management plan, as attached, is approved by the corporation and complies with the Turnbull Report';
- Schedule 1A:
  - i 'please enter planned FTEs, 16–18 full-time';
  - ii 'please enter planned FTEs, other';
  - iii 'please enter franchised provision funds, if applicable';
- Schedule 7:
  - i 'analysis of loans falling due within one year and after one year does not equal total loans' – if lines 1(b)(v) and (viii), Schedule 7 are not equal in any period;
  - ii 'the value in line 2(c) must equal line 2(f)';
  - iii 'the value in line 4(d) must equal line 4(g)';
  - iv 'the value in line 5(d) must equal line 5(g)';
- Schedule 8 provisions:
  - i 'insufficient SSAP 24 provision made to allow for release of provision' – if Schedule 8, line 2(a)(iv) is greater than the sum of lines 2(a)(i), 2(a)(ii) and 2(a)(iii) in any period.

*Please ensure that all error messages are cleared before the financial plan is returned to the LSC.*

## **Negative figures**

252 Within the financial plan application, entry of negative figures is only permitted in the following lines:

- Form 1, line 3(a)(i), repayment of European funding;
- Form 1, line 4(d), results of subsidiary companies not consolidated;
- Form 1, asset disposals in lines 9 and 10, surplus/(deficit) on asset disposals/transactions;
- Form 1, line 12, transfer (to)/from revaluation reserves;
- Form 1, lines 16 and 17, transfer to/from reserves;
- Form 1, line 14, balance brought forward on income and expenditure account at 1 August 2003 only;
- Form 5, reconciliation of movements between years; and
- Schedule 11, lines 6, 7 and 31, unrealised gains or losses on revaluation reserve.

253 The use of negative figures is not restricted in the mid-year update. When entering data into this application, it is important to ensure that the negative value is input if applicable. This is particularly important when entering data onto the cash flow statement.

# **Section 3: Changes to Format of the Plan**

## **Financial Plan**

254 The LSC will make the proforma available on its website ([www.lsc.gov.uk](http://www.lsc.gov.uk)) as a Microsoft Excel workbook. The LSC will not send disks to colleges unless specifically requested. A separate application is not needed to access the proforma.

## **Form 1: Income**

255 The income and expenditure account has changed slightly from last year.

256 A line for HEFCE release of capital grants has been added, line 1(b)(iii). This line is automatically calculated from Schedule 2.

257 The appropriation of surplus/(deficit) has been divided into two sections: Statement of historical cost surpluses and deficits, and Movement in the income and

expenditure account reserve. This is in line with the *Statement of Recommended Practice: Accounting for Further and Higher Education Institutions* (F&HE SORP).

### **Form 2A: Non-pay expenditure**

258 Line 5(a) and (b), general education expenditure, has been combined onto one line.

### **Form 3: Balance sheet**

259 Lines 2(c) and 2(d), short-term investments, have been reclassified as 2(c)(i) and (ii): 2(c)(i), restricted cash and short-term investments from disposal of fixed assets and held for future asset acquisitions; and 2(c)(ii), other short-term investments and cash.

### **Schedule 1B: Other Learning and Skills Council income**

260 Local initiative fund/local investment and development fund has been added at line 5, in order to enable colleges to include income from these funds. Local initiative fund should be used for 2002/03 only, and local investment and development fund for 2003/04 onwards.

261 ESF co-financing has been added at line 7.

262 Exceptional support package has been added at line 12.

263 Success for All has been included at line 13.

264 Lines 14 and 15 have been left blank, to allow colleges to enter sources of LSC income that have not been mentioned.

### **Schedule 2: Funds for capital purposes**

265 All revenue lines have been removed from this schedule.

266 Line 4(c), revenue elements from capital grants, has been added.

### **Schedule 5: Fixed asset depreciation**

267 Line 5, land and buildings financed by HEFCE capital grant: (a) depreciation on cost, and (b) depreciation on revalued amount, have been added.

268 Line 8, equipment financed by HEFCE capital grant: (a) depreciation on cost, and (b) depreciation on revalued amount, have been added.

## **Changes to Format of the Mid-year Update**

### **Form 1: Income and expenditure**

269 The income and expenditure account has changed slightly from last year.

270 A line for HEFCE release of capital grants has been added, line 1(b)(iii).

271 The appropriation of surplus/(deficit) has been divided into two sections: Statement of historical cost surpluses and deficits, and Movement in the income and expenditure account reserve. This is in line with the F&HE SORP.

### **Form 2A: Non-pay expenditure**

272 Line 5(a) and (b), general education expenditure, has been combined onto one line.

### **Form 3: Balance sheet**

273 Lines 2(c) and 2(d), short-term investments, have been reclassified as 2(c)(i) and (ii): 2(c)(i), restricted cash and short-term investments from disposal of fixed assets and held for future asset acquisitions; and 2(c)(ii), other short-term investments and cash.

### **Schedule 1: Other Learning and Skills Council income**

274 Local investment and development fund has been added at line 5, in order to enable colleges to include income from these funds.

275 ESF co-financing has been added at line 7.

276 Exceptional support package has been added at line 11.

277 Success for All for infrastructure and equipment has been included at line 12.

278 Teaching pay initiative has been removed from the mid-year update, as this income does not apply to 2003/04 onwards.

279 Lines 13 and 14 have been left blank, to allow colleges to enter sources of LSC income that have not been mentioned.

280 Line 15, other LSC income.

## **Section 4: Calculation of Ratios**

## Schedule 14A

281 1 Income used in ratio analysis:

*Calculation:* total income, excluding asset transactions (Form 1, line 6) *minus* release of capital grants (Form 1, line 1(a)(iii)).

282 2 – Short-term solvency

a cash days in hand:

*Calculation:* restricted cash and short-term investments from disposal of fixed assets and held for future fixed asset acquisitions (Form 3, line 2(c)(i)) *plus* other short term investments and cash (Form 3, line 2(c)(ii)) *less* bank overdrafts (Form 3, line 3(a)) *multiplied* by 365 (days) *divided* by total income (calculated at 1 above);

b current ratio:

*Calculation:* total current assets (Form 3, line 2(d)) *divided* by total current liabilities (Form 3, line 3(h));

c debtors' days – excluding the LSC and HEFCE:

*Calculation:* [other accrued income (Schedule 6, line 5) *plus* prepaid expenditure (Schedule 6, line 6) *plus* trade debtors (Schedule 6, line 7) *plus* other debtors (Schedule 6, line 8)] *divided* by total income (Form 1, line 6) *minus* LSC recurrent grant (Form 1, line 1(a)(i)) *minus* work-based learning (Form 1, line 1(a)(ii)) *minus* release of capital grants (Form 1, line 1(a)(iii)) *minus* other LSC income (Form 1, line 1(a)(iv)) *minus* HEFCE recurrent grant (Form 1, line 1(b)(i)), *minus* HEFCE franchised and associated providers (Form 1, line 1(b)(ii)), *minus* HEFCE release of capital grants (Form 1, line 1(b)(iii)), *minus* other HEFCE income (Form 1, line 1(b)(iv)) *multiplied* by 365 (days);

d creditors days – non-pay expenditure:

*Calculation:* trade creditors (Form 3, line 3(d)) *divided* by [total non-pay expenditure (Form 2A, line 16) *less* the interest payable (Form 2A, line 14) *less* depreciation (Form 2A, line 12)) *less* interest on SSAP 24 provision (Form 2A, line 13)] *multiplied* by 365 (days);

e quick ratio:

*Calculation:* total current assets (Form 3, line 2(d)) *less* stock (Form 3, line 2(a)) *divided* by total liabilities (Form 3, line 3(h)).

283 3 – Ability to generate cash

a cash generated from operations to income:

*Calculation:* net cash inflow/(outflow) from operating activities (Form 4, line 1) *divided* by income (calculated at 1 above).

284 4 – Indebtedness

a debt charges as a percentage of income:

*Calculation:* repayment of amounts borrowed (Form 4, line 6(c)) *plus* repayment of LEA deficit loan (Form 4, line 6(d)) *plus* interest paid (Form 4, line 2(b)) *plus* interest

element of finance lease rental payments (Form 4, line 2(c)) *divided* by income (calculated at 1 above);

b total borrowing of a percentage of income:

*Calculation:* bank overdraft (Schedule 7, line 1(a)) *plus* total loans (Schedule 7, line 1(b)(viii)) *plus* total LEA deficit loan (Schedule 7, line 2(f)) *divided* by income (calculated at 1 above);

c total borrowing as a percentage of reserves:

*Calculation:* bank overdraft (Schedule 7, line 1(a)) *plus* total loans (Schedule 7, line 1(b)(viii)) *plus* LEA deficit loan (Schedule 7, line 2(f)) *divided* by total reserves (Form 3, line 14) *less* revaluation reserve (Form 3, line 10).

#### 285 5 – Reserves

a surplus/(deficit) as a percentage of income:

*Calculation:* surplus/(deficit) after tax, excluding asset transactions (Form 1, line 8(b)) *divided* by income (calculated at 1 above);

b historical cost surplus/(deficit) as a percentage of income:

*Calculation:* historical cost surplus/(deficit) (Form 1, line 13) *divided* by income (calculated at 1 above);

c available reserves as a percentage of income:

*Calculation:* income and expenditure account (Form 3, line 13) *plus* designated reserves (Form 3, line 12) *divided* by income (calculated at 1 above);

d reserves as a percentage of income:

*Calculation:* total reserves (Form 3, line 14) *less* revaluation reserve (Form 3, line 10) *divided* by income (calculated at 1 above).

#### 286 6 – LFR

a LFR per FTE (£):

value taken from Schedule 1A, line 15;

b year-on-year increase:

*Calculation:* learner funding rate as at Schedule 14, Form A, line 6(a) *divided* by LFR for previous year, *minus* 100%.

### **Schedule 14B**

#### 287 1 – Income

a year-on-year increase – income:

*Calculation:* total income (as calculated in Schedule 14, Form A, line 1) *divided* by (total income for previous year) *minus* 100%;

b dependency on LSC income:

*Calculation:* [LSC recurrent grant (Form 1, line 1(a)(i)) *plus* work-based learning (Form 1, line 1(a)(ii)) *plus* other LSC income (Form 1, line 1(a)(iv))] *divided* by income (Schedule 14A, line 1);

c dependency on European income:

*Calculation:* [grant income European funds (Form 1, line 3(a)) *minus* repayment of European funds (Form 1, line 3(a)(i))] *divided* by income (Schedule 14A, line 1);

d dependency on HE income:

*Calculation:* [HE income: recurrent grant (Form 1, line 1(b)(i)) *plus* franchised and associated providers (Form 1, line 1(b)(ii)) *plus* other HEFCE income (Form 1, line 1(b)(iii)) *plus* tuition fees and charges: HE (Form 1, line 2(c))] *divided* by income (Schedule 14A, line 1);

e dependency on other income:

*Calculation:* all other income not included in the above income ratios (Form 1, lines 2(a)(i), 2(a)(ii), 2(b), 2(d)(i), 2(d)(ii), 2(e), 2(f), 2(g), 3(b), 4(a), 4(b), 4(c), 4(d), 4(e), 4(f), 5(a), 5(b)) *divided* by income (Schedule 14A, line 1);

f surplus/(deficit) on franchised provision:

*Calculation:* franchised provision (Schedule 1A, line 21) *multiplied* by area weighting factor (Schedule 1A, line 13) *less* franchised provision costs (Form 2A, line 10) *less* franchised provision costs (Form 2B, line 9);

g surplus/(deficit) on catering, residences and conferences:

*Calculation:* catering, residences and conference income (Form 1, line 4a) *minus* catering and residences expenditure (Form 2A, line 7 *plus* Form 2B, line 6);

h surplus/(deficit) on other income-generating activities:

*Calculation:* other income-generating activities income (Form 1, line 4(c)) *minus* other income-generating activities expenditure (Form 2A, line 8 *plus* Form 2B, line 7);

i surplus/(deficit) on farming:

*Calculation:* farming income (Form 1, line 4(b)) *minus* farming expenditure (Form 2A, line 9 *plus* Form 2B, line 8).

## 288 2 – Expenditure

a pay expenditure as a percentage of income (including contract tuition services):

*Calculation:* total pay before restructuring (Form 2B, line 12) *divided* by income (Schedule 14A, line 1);

b pay expenditure as a percentage of income (excluding contract tuition services):

*Calculation:* total pay before restructuring (Form 2B, line 12) *minus* contract tuition services (Form 2B, line 11) *divided* by total income (Schedule 14A, line 1);

c permanent payroll proportion:

*Calculation:* permanent staff expenditure (Schedule 10, line 1) *divided* by total payroll expenditure (Schedule 10, line 5);

d year-on-year increase – pay expenditure:

*Calculation:* total pay expenditure before restructuring (Form 2B, line 12) *divided* by (total pay expenditure before restructuring for previous year) *minus* 100%;

e administration costs proportion:

*Calculation:* total admin costs (Form 2A, line 4 plus Form 2B, line 4) *divided* by total expenditure (Form 2B, line 16);

f year-on-year increase – non-pay expenditure:

*Calculation:* total non-pay expenditure (Form 2B, line 15) *divided* by (total non-pay expenditure for previous year) minus 100%;

g premises cost per m<sup>2</sup>:

*Calculation:* premises costs [non-pay expenditure (Form 2A, lines 6(a), running costs; 6(b), maintenance; and 6(c), rents and leases) *plus* pay expenditure (Form 2B, lines 6(a) running costs, and 6(b) maintenance)] *multiplied* by 1000 *divided* by total college area (input by college at Form 2A, line 17).

289 3 – Other

a trading ratio:

*Calculation:* total income as defined above, *divided* by total reserves (Form 3, line 14);

b average cost per teaching post:

*Calculation:* teaching departments; teaching staff (Form 2B, line 1(a)) *divided* by number of teaching staff (FTEs) (input by college at Form 2B, line 17);

c average costs per non-teaching post:

*Calculation:* total pay expenditure before restructuring (Form 2B, line 12) *minus* teaching departments; teaching staff (Form 2B, line 1(a)) *minus* contract tuition services (Form 2B, line 11) *divided* by number of non-teaching staff (FTEs) (input by college at Form 2B, line 18);

d (i) staff costs per learner (FTE): teaching:

*Calculation:* teaching departments; teaching staff (Form 2B, line 1(a)) *plus* contracted-out tuition costs (Form 2B, line 11) *divided* by planned learner FTEs (Schedule 1A, lines 19(a) and 19(b));

(ii) staff costs per learner (FTE): non-teaching:

*Calculation:* total pay expenditure before restructuring (Form 2B, line 12) *minus* contracted out tuition services (Form 2B, line 11) *minus* teaching departments; teaching staff (Form 2B, line 1(a)) *divided* by planned learner FTEs, 16–18-year-old full-time (Schedule 1A, line 19(a)) *plus* planned learner FTEs, other (Schedule 1A, line 19(b));

e number of learners (FTEs) per teaching staff (FTEs):

*Calculation:* planned learner FTEs, 16–18-year-old full-time (Schedule 1A, line 19(a)) *plus* planned learner FTEs, other (Schedule 1A, line 19(b)) *divided* by number of teaching staff (FTEs) (Form 2B, line 17);

f total cost per learner (FTEs):

*Calculation:* total expenditure (Form 2B, line 16) *divided* by planned learner FTEs, 16–18-year-old full-time (Schedule 1A, line 19(a)) *plus* planned learner FTEs, other (Schedule 1A, line 19(b));

g space per FTE:



*Calculation:* premises area (Form 2A, line 17)/total planned FTEs (Schedule 1A, line 20).