

Notes and Guidance on the Finance Record

2001/02:

**Supplement D to Circular 02/07
(FE Colleges only)**

Contents

		Paragraph
Section 1	Changes to format of the finance record	1 - 4
Section 2	Finance record 2001/02	5 - 9
Section 3	Guidance on completing the finance record	10 - 130
Section 4	Potential Problems	131 - 143

SECTION 1

Changes to Format of the Finance Record

1 The format used for the December 2001 finance record, as set out in Circular 01/01 *Strategic Plans, Including Financial Forecasts and Accommodation Data*, has been amended for the following reasons:

- a. FEFC Circular 00/22 stated that colleges had to comply with the requirements of the F&HE SORP in the production of their annual financial statements. The finance record has now been updated to reflect the F&HE SORP, which should make the record easier to complete.
- b. In the past the Council has written to each college, after calculating a number of financial ratios from their financial statements, requesting concurrence with the statistics with the result being a publication of the data through a Council circular. However, this has proved to be a long process, with the information being extremely dated by the time it was published. For 2001/02 the Council would like to publish the statistics gathered from the finance record in a more timely manner. It is anticipated that by including the financial ratios on schedule 3 and with the principal signing the agreement to the data listed within the record being published by the Council on form 4 that the Council would be able to achieve this objective.

2 The changes to the 2001/02 finance record from the 2000/01 finance record are stated in the below table.

2001/02 Finance Record	2000/01 Finance Record
Form 1 Income and Expenditure Account	
Line 1, a, LSC	
i) Recurrent Grant	i) Participation Allocation
ii) Work Based Learning	ii) Line 3,b TEC
iii) Release of capital grants	iii) Line 2, Release of Capital Grants
iv) Other LSC Income	iv) Line 1,b Other LSC Income
Line 1, b, HEFCE	
i) Recurrent Grant	i) Line 3, c, I) HEFCE
ii) Franchised and associate colleges	ii) Line 3,c,ii) Franchised and associate colleges
iii) Other HEFCE income	iii) New Line

2001/02 Finance Record	2000/01 Finance Record
Line 2,a,i) UK Line 2,a,ii) Other EU b, Non EU c, HE d, i) Dedicated ii) Other e, LEA f, New Deal g, Other	Line 4,a,i) UK Line 4,a,ii) Other EU Line 4,b Non EU Line 4,c HE Line 4 d,i) Dedicated Line 4 d ii) Other Line 3,a LEA Line 3,d New Deal Line 3,e Other
Line 3 a, European Funds a,i) Repayment of European funding Line 3,b Other funds	Line 5,a European Funds Line 5,a i) Repayment of European funding Line 5, b Other funds
Line 4,a) Catering, residencies and conferences Line 4,b) Farming Activities Line 4,c) Other income generating income Line 4,d) Results of subsidiary companies not consolidated profit/(loss) Line 4,e) Releases from deferred capital grants (non LSC) Line 4,f) Miscellaneous income (excluding investments)	Line 8 Catering and residence operations Line 9 Farming Activities Line 7 Other income generating activities Line 12 Results of subsidiary companies not consolidated profit/ (loss) New Line Line 11 Miscellaneous income (including investments)
Line 5 a) Investment income b) Interest receivable	New Line Line 13 Interest receivable
Line 6 Total Income	Line 14 Total Income
Line 7 Total Expenditure	Line 15 Total Expenditure
Line 8 Surplus/ (deficit) a)before taxation b) after taxation	Line 16 Surplus/ (deficit) a) before taxation b) after taxation
Line 9 Surplus/(deficit) on asset disposals	Line 17 Surplus/(deficit) on asset disposals
Line 10 Surplus/(deficit) including asset transactions	Line 18 Surplus/(deficit) including asset transactions
Line 11 Transfer (to)/ from revaluation reserve	Line 19 Transfer (to)/from revaluation reserve

2001/02 Finance Record	2000/01 Finance Record
Line 12 Historic cost surplus/(deficit)	Line 20 Historic cost surplus/(deficit)
Line 13 Transfer (to)/from restricted reserve	Line 21 Transfer (to)/from restricted reserve
Line 14 Transfer (to)/from designated reserves	Line 22 Transfer (to)/from designated reserve
Line 15 Surplus/(deficit) c/f to income and expenditure account	Line 23 Surplus/(deficit) c/f to income and expenditure account
Line 16 Balance b/f on income and expenditure account	Line 24 Balance b/f on income and expenditure account
Line 17 Balance c/f on income and expenditure account	Line 25 Balance c/f on income and expenditure account
Form 2a Non Pay Expenditure Form	
Line 2 Teaching Support Services	Line 2 Learner Support Services
Line 7 Catering, residence and conferences	Line 9 Catering and residences
Line 9 Farming Activities	Line 10 Farming Activities
Line 10 Franchised provision costs	Line 12 Franchised provision costs
Line 11 Miscellaneous	Line 13 Miscellaneous
Line 12 Depreciation	Line 14 Depreciation
Line 13 Interest on SSAP 24 provision	Line 15 Interest on SSAP 24 Provision
Line 14 Other interest payable	Line 16 Other interest payable
Line 15 Taxation	Line 17 Taxation
Line 16 Total non-pay expenditure	Line 18 Total non-pay expenditure
Form 2b Pay Expenditure Form	
Line 2 Teacher support services	Line 2 Learner support services
Line 5 Premises a) running costs b) Maintenance	Line 6 Premises a) running costs b) Maintenance
Line 6 Catering, residence and conferences	Line 9 Catering and Residences
Line 7 Other income-generating activities	Line 8 Other income-generating activities
Line 8 Farming Activities	Line 10 Farming Activities
Line 9 Franchised provision costs	Line 11 Franchised provision costs
Line 10 Miscellaneous	Line 12 Miscellaneous
Line 11 Contract tuition services	Line 13 Contract tuition services
Line 12 Total pay expenditure before restructuring	Line 14 Total pay expenditure before restructuring
Line 13 Staff restructuring a) Initial cost b) SSAP 24 provision	Line 15 Staff restructuring a) Initial cost b) SSAP 24 provision

2001/02 Finance Record	2000/01 Finance Record
Line 14 Total pay expenditure after restructuring	Line 16 Total pay expenditure after restructuring
Line 15 Total non-pay expenditure (form 2a)	Line 17 Total non-pay expenditure (form 2a)
Line 16 Total expenditure (to form 1)	Line 18 Total expenditure (to form 1)
Schedule 1 LSC Funding and Other items	
Line 7 Widening Participation strategic partnerships	Line 8 Widening participation strategic partnerships
Line 8 Local Initiative Fund	New Line
Line 9 University for Industry projects	Line 10 University for Industry projects
Line 10 Centres for Vocational Excellence	New Line
Line 11 Teachers pay initiative	New Line
Line 12 Foot and Mouth	New Line
Line 13 Other LSC Income	Line 11 Other LSC Income
Line 15 Learner support funds	Line 14 Learner support funds
Line 16 Total number of subsidiaries	Line 13 Total number of subsidiaries

- 3 The following items have been deleted from the 2000/01 finance record.
- Form 1, Line 10, income for payments under section 6 (5) of the *Further and Higher Education Act 1992* has been removed to reflect the direct funding of adult and community learning providers under the Learning and Skills Council.
 - Form 2A, Line 7, research has been removed to match the disclosure requirements of the F&HE SORP. Any research expenditure should now be disclosed under line 11, miscellaneous expenditure.
 - Form 2A, Line 11, payments under section 6 (5) of the *Further and Higher Education Act 1992* has been removed to reflect the direct funding of adult and community learning providers under the Learning and Skills Council.
 - Form 2B, Line 5a, marketing pay expenditure has been removed to match the disclosure requirements of the F&HE SORP. Any marketing pay expenditure should now be disclosed under line 4, administrative and central services pay expenditure.
 - Form 2B, Line 5b, examination pay expenditure has been removed to match the disclosure requirements of the F&HE SORP. Any examination pay expenditure should now be disclosed under line 4, administrative and central services pay expenditure.

- f. Form 2B, Line 7, research has been removed to match the disclosure requirements of the F&HE SORP. Any research pay expenditure should now be disclosed under line 12, miscellaneous expenditure.
 - g. Schedule 1 Line 7 non-schedule 2 fund has been removed. This is in line with the *Learning and Skills Act 2000*, which has removed the distinction between schedule 2 and non-schedule 2 qualifications.
 - h. Schedule 1 Line 9 the inclusive learning quality initiative has been removed.
- 4 The following items have been added to the 2000/01 finance record:
- a. Form 1 Line b) iii), other HEFCE income
 - b. Form 1 Line 4 e) releases from deferred capital grants (non LSC). This includes deferred capital grants from HEFCE, as well as other bodies.
 - c. Form 1 Line 5 a) investment income. This matches the disclosure requirements of the F&HE SORP.
 - d. Schedule 1 Line 8 local initiative fund
 - e. Schedule 1 Line 10 centres for vocational excellence
 - f. Schedule 1 Line 11 teachers pay initiative
 - g. Schedule 1 Line 12 foot and mouth
 - h. Schedule 2 Line 5 a) number of teaching staff (FTEs)
 - i. Schedule 2 Line 5 b) number of non-teaching staff (FTEs)
 - j. Schedule 2 Line 6 b) Net pension asset / (liability)
 - k. Schedule 3 ratio analysis

SECTION 2

Finance record 2001/02

5 The finance record 2001/02 covers the 12-month period ending 31 July 2002. It requires colleges to complete:

- a. Form 1 Income and expenditure account
- b. Form 2A Non-pay expenditure
- c. Form 2B Pay expenditure
- d. Form 3 Balance sheet

- e. Form 4 Cashflow statement
- f. Schedule 1 LSC funding allocation and other items
- g. Schedule 2 Expenses

6 It includes the first column of forms 1, 2A, 2B and 4 and schedule 1B of the three-year financial forecast, and the second column of form 3. Please note that finance record schedule 1 is the equivalent to schedule 1B of the financial forecast. The finance record includes two new schedules:

- a. Schedule 2, which captures data on senior postholders' emoluments, pay awards and staff numbers, and also expenditure relating to audit fees and overseas activities. Please would you also indicate the likely impact of FRS 17 *Retirement Benefits* on the college by completing line 6 b) net pension asset / (liability).
- b. Schedule 3, which indicates key financial ratios calculated from the details entered in the finance record.

7 Colleges are asked to complete the column of figures in forms 1, 2A, 2B, 3 and 4 and schedules 1 and 2 and return this information to the Council. Please ensure that line 1 a (iii) of form 1, release of capital grants, includes only Learning and Skills Council capital grants.

8 Where there are variances between the final out-turn for 2001/02 and the forecast provided in July 2002 greater than 1% at the total expenditure line or total income line, colleges should explain the variances in an accompanying commentary.

9 The workbook called Record02.XLS contains the finance record forms for 2001/02. Paragraph 131 provides details on how to install the workbook.

SECTION 3

Guidance on Completing the Finance Record

Introduction

10 This section provides guidance on accounting policies and on completing the finance record schedules and forms.

Finance Records

11 The finance records are used for a number of purposes. The Council expects colleges to use the record for internal planning and monitoring purposes, and reviews each financial statement and finance record alongside the strategic plan, accommodation strategy and other information. This is to form an opinion on the financial health of the college and to determine if there are issues to raise with the

college. The Council also considers whether it agrees with the college's self-assessment of its financial health.

12 The Council aggregates all finance records to give a summarised view of the financial health of the sector. This summary is reported to Council each May 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.

13 The Council also uses the aggregate data to respond to ad hoc queries from colleges and the department.

Details

14 Please enter the college's details i.e. name, college code and payment code in the relevant cells on the details worksheet.

Form 1 Income

15 The record requires colleges to analyse income sources and movements in these income sources. Income is split into Funding Council grants, tuition fees and education contracts, research grants and contracts, other income generating activities, catering, residence and conferences, farming, investment income and other income to determine the dependency of a college on particular sources of income.

16 Income from catering, residences and conferences, farming activities and other subsidiary activities are compared with the cost to see if these activities are subsidised or contribute to fixed costs.

Line 1, Funding Council grant income

17 This will include:

- a. Learning and Skills Council income
 - i. Recurrent grant - allocation, including growth allocation
 - ii. Work based learning income - including income from youth training (YT), employment training (ET), income from youth credits and trainee allowances
 - iii. Release of capital grants - This line matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants).
 - iv. Other Learning and Skills Council income. This includes income from other initiatives such as summer schools, University for Industry and the further education (FE) standards fund from schedule 1.

18 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 the *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.

- b. Higher Education Funding Council for England (HEFCE) income
 - i. Recurrent grant – include income received direct from the HEFCE for prescribed higher education including that transferred from Learning and Skills Council.
 - ii. Franchised and associated colleges - income to the college from higher education institutions for the provision of HE courses.
 - iii. Other HEFCE income

Line 2 Tuition fees and education contracts

13 This will include:

- a. 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 HE;
- d. Employer-led provision:
 - i. Dedicated
 - ii. Other.
- e. LEA contracts - all local education authority (LEA) income
- f. New Deal income
- g. Other - include income for courses run for other authorities such as health authorities, and the Home Office (prison education).

19 To assist the Council 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:

- a. S16 major source of tuition fees as employer code (3);

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

Line 3 Research grant and contracts income

20 This will include:

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

Line 4 Other income

21 This will include:

- a. Catering, residence and conference income – Income from catering, residences and conference operations. 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 separately identified.
- d. Results from subsidiary companies not consolidated profit / (loss) - 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.
- e. Releases from deferred capital grants (non LSC) – Include capital grants from non-LSC sources, such as, HEFCE.
- f. Miscellaneous income (excluding investments) - This will include:

- i. Examination fees – include those for professional examinations
- ii. Other income – 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 and rates recovered, nursery, gym, sundry income (i.e., library).

Line 5 Endowment and Investment Income

22 This will include:

- a. Investment income – include income earned on restricted endowments to the extent that the income is spent on capital or revenue items and any other investment income earned. Do not include interest that will be shown at line 5b;
- b. Interest receivable - Include interest from all sources.

Line 6 Total income

23 This is the sum of lines 1 to 5.

Line 7 Total expenditure

24 This is taken from line 16 on form 2B

Line 8 Surplus/(deficit)

25 This is 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.

Line 9 Surplus/(deficit) on asset disposals

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

Line 10 Surplus/(deficit) including asset transactions (after tax)

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

Appropriation of surplus/(deficit)

Line 11 Transfer (to)/from revaluation reserves

28 This is 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.

Line 12 Historical cost surplus/(deficit)

29 This is the surplus or deficit in the year after transfer to or from the revaluation reserve (line 10 plus line 11).

Line 13 Transfer (to)/from restricted reserves

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

31 All such transfers to or from reserves must be explained in the notes to the financial statements.

Line 14 Transfer (to)/from designated reserves

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

33 Explain all such transfers to or from reserves in the notes to the financial statements.

Line 15 Surplus/(deficit) carried forward to the income and expenditure account

34 This is the sum of lines 12,13 and 14.

Line 16 Balance brought forward on the income and expenditure account

35 The college's general funds carried over from the previous period as set out in the college's audited financial statements.

Line 17 Balance carried forward on the income and expenditure account

36 This is the total of lines 15 and 16.

Form 2A Non-pay expenditure

37 The same 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 Council in responding to queries on teaching costs versus administration costs. We use the analysis to prepare benchmarking data for colleges on levels of expenditure.

38 Form 2A is for recording non-pay expenditure, including materials, consumables, uncapitalised equipment, stationery, travel and subsistence, postage, telephone charges, books, periodicals, copyright licences, advertising, relocation contributions, consultancy fees, insurance and revenue building works. Include these in the appropriate expense categories below.

Line 1 Teaching departments

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

Line 2 Teaching support services

40 This item will cover the cost of centrally organised services providing teaching support to all learners, including:

- a. 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
- b. 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
- c. Additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme to help an individual learner 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
- d. Learner guidance on enrolment
- e. Learner support
- f. Payment to student unions
- g. Recreation services such as non-curricular music, drama and sport
- h. Medical services
- i. Learner services such as careers advisory services, welfare services and specific charges for counselling
- j. Learner transport
- k. General support fund payments
- l. Residential bursary payments.

Line 3 Other support services

41 This will include:

- a. Staff training (including costs of seminars)
- b. Print services
- c. Expenditure on facilities such as theatres and galleries, except those run by teaching departments which will be included in line 1
- d. Curriculum-development costs
- e. Nursery, work placements.

Line 4 Administration and central services

42 This will cover the general running costs of the college and those specifically charged to central services such as:

- a. The revenue costs of administrative computing
- b. Bank charges (excluding interest charges that are covered at line 14 below)
- c. Legal and audit fees
- d. Insurance premiums other than buildings insurance that is covered at line 6(a) below
- e. Travel and subsistence costs of the principalship and administrative staff
- f. Recruitment costs, surveyors' fees, postage, telephones, subscriptions, and payroll services
- g. Copyright licence, revenue-running costs of payroll, central licences
- h. Administration costs of using agency or part time staff, whether this function is carried out centrally or in departments.

Line 5 General education expenditure

43 This will include:

- a. 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;
- b. Examination costs.

Line 6 Premises

44 This will include:

- 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:
 - Moving costs, refurbishment costs
 - Minor building improvements and alterations not capitalised.

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

45 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 the additional costs incurred to secure the income.

Line 10 Franchising provision costs

46 Include all franchising provision payments other than staff in this heading.

Line 11 Miscellaneous

47 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. Other expenses to be included:

- a. Provision for bad debts;
- b. Costs for training restaurants/hair and beauty salons;
- c. Revaluation loss on equipment financed by grant.

Line 12 Depreciation

48 This line should match the depreciation charge for the year indicated by the note in the financial statements on tangible fixed assets.

Line 13 Interest on SSAP 24 provision

49 Interest on SSAP 24 provisions brought forward from the provisions note in the financial statements.

Line 14 Other interest payable

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

Line 15 Taxation

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

Line 16 Total non-pay expenditure

52 This is the sum of lines 1 to 15.

Form 2B Pay expenditure

53 Pay expenditure will include basic payroll costs, overtime and other allowances and additions, employers' superannuation costs, employers' national insurance contributions, premature retirement costs and redundancy costs.

Line 1 Teaching departments

54 This will include:

- a. Teaching Staff – include the cost of staff who 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 who split their time between teaching and other income-generating activity (line 7 below) between line 1(a) and line 7 below. Include any costs of staff cover for teaching staff in this line.
- b. Other Staff – 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.

Line 2 Teaching support services

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

- a. 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
- b. Computer and resource-based learning centres – the cost of staff managing and running such centres. The cost of staff engaged in administrative computing work will be shown under line 4
- c. 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

- d. Learner guidance on enrolment
- e. Learner support, including the cost of administering access funds
- f. College nurses, learner welfare officers, recreation tutors, accommodation officers, careers officers and counsellors.

Line 3 Other support services

56 This will include:

- a. Staff training costs – the directly identifiable costs of staff training and development including the cost of staff tutors and their support staff
- b. Print services staff, student union staff (if the student union is not a separate legal entity) and curators
- c. Nursery staff
- d. Work placement team reception.

Line 4 Administration and central services

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

- a. MIS
- b. Registry (examinations)
- c. Computer maintenance/software development
- d. Staff involved in fund raising/community focused roles
- e. Data input staff;
- f. Work based learning and New Deal administration costs
- g. Time tabling staff
- h. Quality unit.
- i. Marketing – including learner recruitment, publicity and promotion
- j. Examinations.

Line 5 Premises

58 This will include:

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

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

59 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.

Line 9 Franchising provision costs

60 Include franchising provision pay costs of the college's own employees under this heading.

Line 10 Miscellaneous

61 Include any staff costs not included in previous lines. If there are any staff costs associated with training restaurants or hair and beauty salons linked to income generation, then they will be included here.

Line 11 Contract tuition services

62 This will include the pay costs of agencies used for providing tuition services. In the F&HE SORP contracted tuition services are included under non-pay expenditure. Colleges are requested to follow the F&HE SORP for the financial statements but in the finance record include the expenditure under line 11 of form 2B.

Line 12 Total pay expenditure before restructuring

63 Sum of lines 1 to 11. This line is used in calculating ratios.

Line 13 Staff restructuring

64 This will include:

- a. Initial cost – include all staff-related initial payments in respect of restructuring (redundancy compensation and enhanced lump sum payments);
- b. SSAP 24 provision – this is both the provision for any enhanced pension entitlement given and any provision necessary because of the under-funding of the college's liability under the Local Government Superannuation Scheme (LGSS).

65 Colleges undertaking a staff restructuring scheme, whereby they grant enhanced pensions, will be required to calculate a provision for future pension costs as described in SSAP 24, *Accounting for Pension Costs*.

66 Guidance on calculating SSAP 24 provisions is contained in supplement B of this circular.

Line 14 Total pay expenditure after restructuring

67 Sum of lines 12 and 13(a) and 13(b).

Line 15 Total non-pay expenditure

68 This is line 16 from form 2A.

Line 16 Total expenditure

69 This is the sum of lines 14 and 15.

Form 3 Balance sheet

Line 1 Fixed assets

70 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
- i. Total of lines 1(a) to 1(h).

Line 2 Current assets

71 This will include:

- a. Stocks – the value of stocks such as farm stock at the lower of cost or realisable value
- b. Debtors
- c. The value of money market investments held as short-term assets valued at the lower of cost or net realisable value
- d. Cash and bank balances
- e. Total of lines 2(a) to 2(d).

Line 3 Creditors: amounts falling due within one year

72 This will include:

- 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 – include any monies due to the Council for recovery of funds for underachievement.
- h. Total of lines 3(a) to 3(g).

Line 4 Net current assets/(liabilities)

73 Line 2(e) minus line 3(h).

Line 5 Total assets less current liabilities

74 Line 1(i) plus line 4.

Line 6 Creditors: amounts falling due after one year

75 This will include:

- 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
- d. Total of lines 6(a) to 6(c).

Line 7 Total provisions, this should include long-term provisions.

Line 8 Total assets less liabilities

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

Line 9 Deferred capital grants

77 This will be the balance carried forward of deferred capital grants.

Line 10 Revaluation reserves

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

Line 11 Restricted reserves

79 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.

Line 12 Designated reserves

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

Line 13 Income and expenditure account

81 The accumulated balance on the income and expenditure account.

Line 14 Total reserves

82 The sum of lines 10 to 13.

Line 15 Total (including deferred capital grants)

83 The sum of lines 9 and 14.

Form 4 Cashflow statement

84 This schedule calculates a cashflow statement, as required by Financial Reporting Standard 1 (FRS1). The entries on this form are:

- a. Cash is regarded as cash in hand, deposits and overdrafts repayable on demand (under one working day's notice)
- b. 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
- c. Net debt is defined as borrowings under FRS4, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans
- d. An additional section on management of liquid resources is included in the cashflow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments

- e. The standard requires a separate reconciliation of net cashflow to movement in net debt.

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

85 This will show 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:

- a. Depreciation
- b. Deferred capital grants released to income
- c. Profit/loss on disposal of fixed assets
- d. Increase/decrease in stocks
- e. Interest payable
- f. Increase/decrease in debtors
- g. Increase/decrease in trade creditors
- h. Increase/decrease in tax and pension contributions
- i. Increase/decrease in other payments on account
- j. Increase/decrease in other liabilities
- k. Increase/decrease in provisions
- l. Interest receivable.

Line 2 Returns on investments and servicing of finance

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

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

Line 3 Taxation

87 This line will include cashflows to or from taxation authorities in respect of the institution's revenue and capital surpluses. Deal with cashflows in respect of other taxation, including payments and receipts in respect of VAT within operating activities.

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 Council or any other source
- d. Net cash inflow/(outflow) from capital expenditure. The sum of lines 4(a) to 4(c).

Line 5 Management of liquid resources

88 This 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
- c. Net cash inflow/(outflow) from management of liquid resources – the sum of lines 5(a) and 5(b).

Line 6 Financing

89 This 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
- f. Net cash inflow/(outflow) from financing. The sum of lines 6(a) to 6(e).

Line 7 Increase/(decrease) in cash

90 The sum of lines 1, 2(d), 3, 4(d), 5(c) and 6(f).

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

91 This 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
- 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.
- g. Net funds/(debt) at the end of the year.

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

Line 9 Has the college revalued its assets since incorporation?

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

Line 10 College's self-assessment of financial health

94 The Council requests colleges to insert their assessment of the most appropriate financial health group for the college on form 3 (at line 10).

Line 11 Principal's certificate

95 The principal signs and dates form 4 to indicate that the record is complete and that the key ratios accurately reflect the audited financial statements for the year ended 31 July 2002. By signing the form the principal also agrees to the data within the finance record being published by the Council at a later date. However, the Council will not publish the college's financial health group as indicated in the finance record.

Schedule 1 LSC Funding Allocation and Other Items

Purpose of schedule

96 This schedule is used to estimate the amount of other income received from the Council. The total income received is carried forward to form 1 line 1a (iv).

Completion of the schedule

97 This schedule is included to show the breakdown of other Learning and Skills Council income as shown in form 1 line 1a (iv) of the finance record.

Line 1 Learner support funds

98 This is income received from additional, childcare support funds and residential bursaries. Further details regarding this fund are in Council Circulars 01/08 *FE Learner Support Funds 2001/02* and Circular 01/12 *The FE Childcare Places Grant Programme 2001/02 to 2003/04*.

Line 2 Ethnic minority student achievement grant (section 11)

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

Line 3 Basic Skills Quality Initiative

100 This is additional income received for improving the quality of basic skills provision. Further details regarding this fund are in Council Circular 01/15 *Standards Fund 2001/02 Category 1e: Basic Skills Quality Initiative*.

Line 4 Individual learning accounts

101 This is income received for individual learning accounts.

Line 5 Rationalisation fund

102 This is income revenue received as a result of rationalisation. Further details regarding this fund are in Council Circular 01/10 *Further Education Corporation Reorganisations and Rationalisation Fund Support*.

Line 6 FE standards fund

103 This is income received from the FE standards fund. Further details regarding this fund are in Council Circular 01/02 *Standards Fund 2001/02*.

Line 7 Widening participation strategic partnerships

104 This is income received from these partnerships.

Line 8 Local Initiative Fund

105 This is income received from local LSCs' Local Initiative Fund.

Line 9 University for Industry projects

106 This is income received for University for Industry projects separate from that included at form 1 line 1a (i).

Line 10 Centres of Vocational Excellence

107 This is income relating to the funding of Centres of Vocational Excellence. Further details regarding this fund can be found in Circular 01/14 *Centres of Vocational Excellence*.

Line 11 Teachers Pay Initiative

108 This is income relating to the teachers pay initiative.

Line 12 Foot and Mouth

109 This is the income received in respect of compensation for the impact of foot and mouth.

Line 13 Other Learning and Skills Council income

110 This is all other Learning and Skills Council income not included in the categories above.

Line 14 Total

111 The sum of lines 1 to 11.

Memorandum line for learner support funds

Line 15 Learner support funds: Access funds

112 This is the amount of access funds spent in the year. Access funds income and expenditure should not be included in the college's income and expenditure account as per guidance previously issued by the Council in Circular 01/04 *Sector Accounting Policies* and Return of Audited Financial Statements.

Line 16 Total number of subsidiaries

113 Please enter the number of subsidiaries owned / partly owned by the college.

Schedule 2 Expenses

Purpose of schedule

114 This schedule is used to show the key pay and non-pay expenditure disclosure notes from the college's audited financial statements

Completion of the schedule

Line 1 Senior post-holders' emoluments

115 This will include:

- a. Principal's salary – This will be the gross salary paid to the principal.
- b. Principal benefits in kind – This will include all benefits in kind, which are disclosed to the Inland Revenue.

- c. Principal pension contribution – This should be the college's contribution to the principal's pension.
- d. Senior post-holders' compensation for loss of office – This should be a disclosure note in the financial statements and have been approved by the college's remuneration committee.

Line 2 Pay awards

116 These are the amounts for pay awards that the corporation has approved for the principal, senior post-holders, higher paid staff and all other staff. The increase will not include incremental increases in pay.

Line 3 Audit fees

117 This will indicate the amount that has been paid for internal audit, external audit and other audit services.

Line 4 Overseas activities

118 This will indicate the amount (if any) the college has spent on overseas activities during the year. The expenditure will net of any contributions made and be split between members, senior post-holders (including the principal), other higher paid staff and other staff.

Line 5 Average monthly number of persons (including senior post-holders) employed by the college during the year, expressed as full-time equivalents

119 Colleges should be disclosing in their financial statements the average monthly number of persons (including senior post-holders) employed by the college during the year. Colleges are requested to transfer these details to lines 5 a) and b) of the finance record.

Line 6 FRS17 Retirement Benefits Disclosure Note

120 Colleges should be disclosing in their 2001/02 financial statements a disclosure note on the effect of implementing FRS17 *Retirement Benefits*. Colleges are requested to disclose at line 6 b) the amount of the net pension asset / (liability) after complying with FRS17.

Schedule 3 Ratio Analysis

121 This schedule is used to inform colleges of key financial ratios from the financial statements / record.

Calculation of Ratios

122 Income used in ratio analysis

Calculation:

Total income, excluding asset transactions (form 1 line 6) less release of capital grants (form 1 line 1 (a) (iii) less releases from deferred capital grants (non LSC) (form 1 line 4 (e)).

123 Short-term solvency

a. Cash days in hand

Calculation:

Total cash (form 3, line 2(d)) plus current asset investments (form 3, line 2(c)) less bank overdrafts (form 3, line 3a) multiplied by 365 (days) divided by total income (calculated at paragraph 120 above).

b. Current ratio

Calculation:

Total current assets (form 3 line 2e)) divided by total current liabilities (form 3 line 3h)).

c. Quick ratio

Calculation:

Total current assets (form 3 line 2(e)) less stock (form 3 line 2(a)) divided by total liabilities (form 3 line 3(h)).

d. Debtors days – excluding the Learning and Skills Council and Higher Education Funding Council for England (HEFCE)

Calculation:

Debtors (form 3 line 2(b)) divided by (total income (form 1 line 6) less Learning and Skills Council recurrent grant (form 1 line 1 (a) (i)) less Learning and Skills Council work based learning income (form 1 line (a) (ii) less release of capital grants (form 1 line 1 (a) (iii) less Other LSC income (form 1 line 1 (a) (iv) less HEFCE recurrent grant (form 1 line 1 (b) (i) less Other HEFCE income (form 1 line 1 (b) (iii) less release from deferred capital grants (non LSC) (form 1 line 4 (e)) less interest receivable (form 1 line 5 (b)), multiplied by 365 (days).

e. Creditors days - non-pay expenditure

Calculation:

Trade creditors (form 3 line 3(d)) divided by [total non-pay expenditure (form 2A line 16) less other 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).

124 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 schedule 3 line 1).

125Indebtedness

- a. Debt charges as a percentage of income

Calculation:

repayment of amounts borrowed (form 4 line 6(c)) plus repayment of local education authority (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 schedule 3 line 1).

- b. Total borrowing as a percentage of income

Calculation:

bank overdraft (form 3 line 3(a)) plus total loans (form 3 line 3(b) plus form 3 line 6(a)) plus total LEA deficit loan (form 3 line 3(c) plus form 3 line 6(b)) divided by income (calculated at schedule 3 line 1).

- c. Total borrowing as a percentage of reserves

Calculation:

Bank overdraft (form 3 line (a)) plus total loans (form 3 line 3(b) plus form 3 line 6(a)) plus total LEA deficit loan (form 3 line 3(c) plus form 3 line 6(b)) divided by total reserves (form 3 line 14) less revaluation reserve (form 3 line 10).

126Reserves

- a. Operating 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 schedule 3 line 1).

- b. Historical cost surplus/(deficit) as a percentage of income

Calculation:

Historical cost surplus/(deficit) (form 1 line 12) divided by income (calculated at schedule 3 line 1).

- 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 schedule 3 line 1).

- 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 schedule 3 line 1).

127 Spread of Income

- a. Dependency on Learning and Skills Council income

Calculation:

Learning and Skills Council recurrent grant (form 1 line 1(a)(i) plus Learning and Skills Council work based learning income (form 1 line 1(a) (ii) plus other LSC income (form 1 line 1(a) (iv)) divided by income (calculated at schedule 3 line 1).

- b. Dependency on European income

Calculation:

Grant income European funds ((form 1 line 3(a) plus form 1 line 3(a)(i)) divided by income (calculated at schedule 3 line 1).

- c. Dependency on higher education income

Calculation:

higher education income (form 1 lines (1b)(i)) plus (1b)(ii)) plus (1b)(iii) plus tuition fees and charges (form 1 line (2c)) divided by income (calculated at schedule 3 line 1).

- d. Dependency on other income

Calculation:

all other income not included in the above income ratios (Form 1 lines 1(a)(iii), 2(a)(i), 2 (a)(ii), 2(b), 2(d)(i), 2(d)(ii), 2(e), 2(f), 2(g), 4(a), 4(b), 4(c), 4(d), 4(e), 4(f), 5(a), 5(b)) divided by income (calculated at schedule 3 line 1).

128 Income Generating Activities

- a. Surplus/(deficit) on catering, residences and conferences

Calculation:

Catering, residences and conference income (form 1 line 4(a)) minus catering, residences and conference expenditure (form 2A line 7 plus form 2B line 6).

- b. 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).

- c. Surplus/(deficit) on farming

Calculation:

Farming income (form 1 line 4(b)) minus farming expenditure (form 2A line 9 plus form 2B line 8).

129 Analysis of Pay 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 (calculated at schedule 3 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 (calculated at schedule 3 line 1).

- c. Administration costs proportion

Calculation:

Total admin costs (form 2A, line 4 plus form 2B line 4) divided by total expenditure (form 2B line 16).

130 Other Ratios

- a. 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 schedule 2 line 5(a)).

- b. Average cost 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 schedule 2 line 5(b)).

- c. Capital expenditure expressed as a percentage of income

Calculation:

Payments to acquire fixed assets (Form 4 line 4 (a)) divided by income (calculated at schedule 3 line 1).

Section 4

Potential problems

131 A number of issues caused colleges problems completing last year's finance record. The most common problems were:

- a. Balance sheet or cashflow does not balance
- b. Saving data to disk
- c. Printing forms

Solutions to these problems are suggested below

Balance sheet does not balance

132 Many colleges 'completed' their financial statements only to find that the balance sheet did not balance. Colleges should check for rounding errors.

Copying data to disk

If colleges have any problems with the operation of the workbook they should contact their local Learning and Skills Council. Colleges will be able to access details of their local Council office from the Council website at www.lsc.gov.uk/contact/contact.cfm.

Installation

133 The workbook for the finance record will be available on the Council's website (www.lsc.gov.uk). Colleges will be able to download the workbook as excel 97-2000 5.0/95 workbooks.

Website

134 To down load the workbook from the Council's website go to www.lsc.gov.uk. Click on the link **Circulars**, then click on the link **2002** and scroll down to the circular titled **Further Education Colleges Accounting Policies and Return of Audited Financial Statements**. Colleges will be able to down load the spreadsheet as an Excel 97-2000 5.0/95 workbook (please save the workbook in the same format). **Please return the workbook via floppy disk to the appropriate local Learning and Skills Council.**

Form layout

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

136 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

137 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 the workbook. You can use your own appropriate file names at this stage. Make sure you keep copies of this workbook.

138 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

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

- select Print from the File menu options
- 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
- click on the OK button.

140 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.

141 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.

142 The page set up defaults for each form is A4 paper size with portrait orientation.

Copying data for return to the Council

143 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 i.e. on a backed up drive, or save a copy to floppy disk). When complete the workbook should be saved to floppy disk using Files, Save As, highlight drive A: and save the workbook as Record02.xls. The workbook can also be copied onto disk from the drive it is stored in by using Windows Explorer. To save the workbook Record02.xls onto disk using this method, ensure that the file to be saved is closed and insert a formatted disk in the computer disk drive (normally drive A:). In Windows Explorer select the folder where the workbook is stored on the hard drive, click on the workbook name, right

mouse click and click copy. Then select your floppy drive (usually A:drive), right mouse click and click paste. When completed the workbook should be saved to a floppy disk with the file name Record02.xls.