Guidance
Management accounts: good practice guide for colleges

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1. Introduction

1.1 The purpose of this guide is to set out principles of good practice to support the production of timely, accurate, useful and effective business and cash reporting of financial performance. Given the strictly advisory status of this good practice guide, the aim is to provide a comprehensive framework of principles that can be used to support with the statement of recommended practice: accounting for further and higher education and the requirements of Education and Skills Funding Agency (ESFA).

1.2 Financial statements and financial reports should provide insight into the financial and context of their management accounts and consult governance and senior leaders on the financial health of the organisation, and the impact of their decisions and other this purpose. Reports should be tailored to any legal, contractual, and expected and packed from the examples.

1.3 Management accounts are one of the critical tools that enable college boards and senior leaders to exercise effective financial oversight and control. Management accounts are also a key source of information for governance, assurance and the exercise. In information (cover) ESFA and the FE Commissioner.

1.4 Which is many cases the format and content of the management accounts will be the responsibility of the finance function, but it is important that governors, senior leaders and budget holders, Which this can be especially relevant, it is important for the latter to ensure consistency of data and key messages and that where governors require supplementary information, this can be readily made available.

A good set of management accounts should serve 2 main purposes:

a) Timely and effective budgetary control: reporting on actual financial performance to date compared to budget to date.

b) Reliable financial forecasting: projecting the forecast financial outturn for the year, taking into account actual performance to date.

It is important to strike the right balance between these 2 objectives to ensure that the management accounts are not overburdened with detail, but that they are focused on forecasting and informing corrective actions that may be necessary to achieve full year targets and objectives.

2. Core contents of monthly management accounts

2.1. It is important to provide the right level of detail in the management accounts, noting that some colleges may be much smaller, rather than too little information:

- too much detail can make the management accounts harder to digest and reduce the focus on key issues
- insufficient detail may make it harder to scrutinise performance or may place too much reliance on the assessment and interpretation of the finance director/management accountant.

2.2 Table 1 below sets out the key aspects of financial performance that the management accounts should contain (management, governors and third parties to review).

Table 1 Key contents of monthly management accounts

1. The surplus or deficit for the period, the financial year to date and the forecast for the financial year, with comparisons against budgets/forecasting performance and prior year (before Interest, Taxation, Depreciation and Amortisation (EBITDA)).	
2. Commentary explaining the surpluses or deficits have been arrived at, how and why they are trading against budgets and what may need to be done to bring the college back on plan.	
3. Cash balances at the college at date both month end and as forecast for the year as a whole and whether its control of assets and liabilities, liquidity and financial stability is satisfactory.	
4. Capital spend, both month and year to date. Forecast for the remainder of the financial year and at least the next 12 months.	
5. Actual and forecast compliance with any loan covenants.	
6. Forecast financial position for the year-end.	
7. A schedule of planned and actual capital expenditure.	

7. Colleges are encouraged to include such additional information in management accounts as it may be considered relevant to users.

3. Commentary

8. Practice across the FE sector varies considerably regarding the format and length of the management accounts commentary. Without there is no prescriptive minimum or maximum length, it is important that the commentary is focused on the key issues and graphs and on the other hand is sufficiently detailed that that will deliver good value the most determined reader. Terminology and abbreviations (both financial and colleges specific) should be avoided or explained. Charts and graphs should be used to support and explanation of tables, graphs and the source of information.

9. External users, such as the banks and ESFA, have confirmed their preference for short and concise commentary. There are good examples where colleges are producing a 1 page executive summary, 1 page of key charts and graphs and 1 page of observations, accepted by effective use of FRAG ratings. It is recommended good practice that the key messages from the monthly management accounts, the management accounts pack and any commentary points and issues.

10. Increasingly colleges are making effective use of bridge or waterfall analysis to explain variances between budget and forecast performance, and to provide insight into the need for lengthy commentary.

11. The exemplars included within this guide underline the importance of a summary page of key headlines that sign-post performance against key performance targets, an area of recurring key messages are highlighted and extensive.

Text extracted from exemplars have developed:

A. POWERPOINT FORMAT

B. TRADITIONAL WORD FORMAT

3.1 Non-financial information

12. A cash/balance needs to be in which within the management accounts to avoid duplicating information in other reports and overloading readers with too much detail.

13. However, summary level non-financial data can be invaluable in helping to triangulate financial performance with other data. The 2 main examples of good practice include:

i) Student numbers

Analysis of actual/forecast student numbers by funding type compared with the full, part-budget. full-year forecast and full year actuals for the prior year.

ii) Staffing

Actual staff headcount or full-time equivalent numbers month by month for the preceding 12 months, broken down by functional headings or by department

14. Colleges sometimes include specific, non-within their management accounts that are specific to their circumstances. Such data may be of interest to governors and senior leaders, but caring in the management accounts which reduces the potential for repetition or duplication with the regular core data. Such information should be considered for consistent and objective methodologies for FRAG ratings.

3.2 Key performance indicators

15. Inclusion of a selected range of key performance indicators (KPIs) within the management accounts is a highly way of summarising overall performance to date and forecast for the year-end. The KPIs should be tailored to the specific circumstances of the college, which needs to take into account of other reporting arrangements such as quality KPIs which tend to be reported separately. A number of colleges use the "balanced scorecard" approach to reporting KPIs which can be a very effective approach.

16. Some KPIs are examples of suggested KPIs for inclusion in the management accounts:

Table 2: Suggested KPIs for inclusion in management accounts

• turnover
• operating Surplus/Deficit (including as a % of turnover)
• education EBITDA (including as a % of turnover)
• cash balances
• cash days in hand
• loan balance
• loan covenants
• pay costs as % of turnover
• debtor days
• creditor days

3.3 Loan covenant compliance

17. The majority of colleges have long-term loans with defined covenants attached that need to be monitored and reported on. Failure to meet a loan covenant requirement can result in a resumption of rights by the bank and will in normal circumstances result in the re-classification of assets as current liabilities.

18. The consequences of non-compliance with loan covenants can be a serious issue, particularly if the opportunity is moved to secure a waiver or agreement not to measure covenants for a specified period of time. Colleges need to be in a strong financial position and practice to report actual and forecast covenant compliance to senior management and governors. This will maintain awareness of covenants and provide advance warning of the risk of breach.

19. Finance directors should exercise discretion as to how much detail is provided in the management accounts regarding loan covenants. It is important that colleges do not collapse exactly to relevant covenant compliance and the degree of resolution before the risk of breach. Where an actual or forecast breach is identified, reports should set out clearly the implications and actions to be taken to remedy the breach.

3.4 Financial health

20. The ESFA financial health scores play an important role in college oversight and intervention policy. They also provide a useful (if imperfect) indicator of colleges' financial health and sustainability. Colleges are therefore recommended to report regularly on their forecast financial health scores and set out implications of their management actions. Governors will set out clearly any risk of a decline in financial health and any implications arising.

21. In reporting financial health it is important to focus on the forecast turn position noting that in year measures can be misleading.

4. Income and expenditure forecasts

23. One of the important functions of the management accounts is to provide a forward forecast of the financial outturn for the year-end. Colleges will typically produce a rolling process from October (such as period 2), since the first period's actuals are generally available. From this period onwards, monthly review and updating of the forecast will provide a reasonable opportunity to identify and correct any significant variances between accuracy and ensure sensitivity. Where approaches, forecasting and budgeting are carried out in a manner that is consistent and objective, the forecast will provide a reasonable level of transparency on the extent to which the college has met the original budget targets set at the start of the year. Where the forecast is not in line with budget, it will provide a useful control and control components against approved budgets, colleges are encouraged to avoid making it over-sensitive to budget targets and report actuals against the budget. Where the forecast is not in line with budget, it will provide a useful control and highlight material variances in financial performance.

24. Forecasts should ideally be used to update not just the statement of income and expenditure but also the cash flow and balance sheet. Colleges need to be aware of the risk of using the forecast as a means to control budgets, which may undermine the integrity in maintained.

27. Key forecasting assumptions should be clearly explained in the commentary to the management accounts and referenced to actual performance to date and relevant non-financial data. Forecasts should be prepared on a prudent basis and it may be helpful to set out a range of potential outcomes (for example, best, most likely and worst case) as long as this does not undermine accountability for under-performance. Colleges should also set out the impact of underperformance should be reflected in updates to the college's risk register.

5. Cashflow forecasting

28. Modern cashflow forecasting has become an increasingly important part of the management accounts pack since the introduction of the insolvency regime and the related flexibilities now ESFA to provide emergency financial support.

29. Colleges must ensure that sufficient priority is given to the maintenance of a robust cashflow forecast. Colleges are required to submit a cashflow forecast to ESFA, which is a number of colleges (around 25 months which is considerable) submitted.

30. As a minimum, colleges should capture monthly cashflows, through to practice forecasts. ESFA expecting returns offer no detailed weekly or daily cash forecasts. Nationally, ESFA expecting returns offer an integrated model of cashflow forecasting, the model is based on the 3 financial statements (P&L, balance sheet and cash flow). Colleges use an integrated forecasting tool, it is important to pay attention to the phasing of the working capital and cash, and avoid blanket or over-simplistic flat monthly assumptions.

31. Colleges should not rely simply on potential generation of the cash flow to support their management accounts. Use of graphs can helpfully highlight trends and variances. Colleges should be aware of the potential for unexpected and unusual cashflow movements and the assumptions that enables the reader to critical variables, intentions and transactions such as one-off capital receipts and funding receipts. Colleges should be aware of the risk of over-reliance on the cashflow forecast, it should be performed to ensure they are control totals reported to the finance director.

32. Colleges should intuitively measure and report cash days in hand and also model transparently the extent of cash headroom, taking account of approved overdraft and other facilities. Colleges should be aware of the potential for cash flow to be unexpectedly tied up in stocks and work in progress, and should be aware of the risk of a shortfall in working capital should be reflected in the updated risk register with proposed mitigations. Operational forecasts may also be appropriate.

6. Capital

33. Practice varies across the FE sector regarding the level of detail reported on capital expenditure within the management accounts. Too often this is an area that is not covered in sufficient detail, despite the potential for significant variances between planned and actual expenditure and the consequential cash impact.

34. Table 3 sets out the minimum recommended good practice:

Table 3. Minimum monthly reporting for capital expenditure

1. Actual expenditure to date.
2. Committed expenditure to date.
3. Full year budget.
4. Balance sheet (net book value).

35. Capital expenditure should be reported for each each main project or scheme, noting that in some colleges commitment data may not be readily available.

36. Given the magnitude and complexity of some capital projects within the sector, it is important that colleges have robust project management and control arrangements in place with variations, claims, percentage completion by stage and forecasts against budget.

37. The major capital projects it may be more relevant to recognise expenditure based on valuation certificates, rather than the valuation date (particularly for the period end but it is likely that the contractor will not submit the invoice or application for payment until the period end, when the account is have been closed. This approach will ensure that information are accurate.

7. Contribution analysis and trading performance

37. Contribution analysis is an important tool in resource allocation and curriculum planning in the FE sector. Many a number of colleges have implemented a contribution costing tools to report on contribution at departmental, curriculum and course level, best practice in methodologies varies considerably.

38. All colleges should have in place robust curriculum planning and costing processes and tools, and should be able to report on curriculum contribution and performance regularly. As a minimum this information should be taken into account as part of the budget preparation and curriculum planning process to inform decisions about course viability, and to ensure that the curriculum is delivered in a cost effective and sustainable manner.

39. A number of colleges find it useful to provide summary level contribution analysis as part of their monthly management accounts. However this can add to the length and volume of the monthly reports and in some cases presents information that changes very slowly. Colleges should ensure that the level of detail and frequency of reporting is appropriate and that it meets the needs of the senior leaders and governors. Contribution analysis should be performed and periodically report on curriculum contribution rates compared to benchmarks and prior year performance.

40. In the same way, most prudent colleges or groups should produce a budget based of contribution analysis by site. In some cases it will be beneficial to include this in the management accounts pack, but it may be more appropriate to report on this within annual budget setting and forecasting cycle.

41. Where colleges operate discrete trading units with material volumes of activity, the management accounts should provide sufficient information to enable the overall financial performance to be regularly monitored. Where this does not include a full apportionment of indirect costs it is necessary to make clear.

8. Accounting concepts and policies

42. The fundamental accounting concepts of matching, prudence, accruals and consistency should be applied to management accounts, as far as practical. To avoid misunderstanding, the accounting policies used for the college's annual financial statements should be set out in the management accounts as far as practical to avoid

43. This does not mean that the format of the management accounts must follow those of the statutory financial statements. Colleges may find it helpful to minimise the difficulties of accounting reports FRS101 (pension adjustments) and FRS102 (these can swing dramatically of year end due to factors outside a college's control, such as changes in discount rates and actuarial assumptions). Colleges should accounts and this is considered acceptable practice. Colleges need to be aware that the last reported pension liability in the balance sheet, in which case test results and assumptions are reported in the annual financial statements.

44. Where accounting treatment is not straightforward, it is important that the management statements this should be properly discussed and explained. At year end when the management accounts are being prepared, it is important that the finance director and auditors to compare the final outcome from which the production of the accounts highlighting the various adjustments, such as FRS102, and explain the impact of key movements year-end.

8.1 Income recognition

45. Colleges will need to consider whether to adjust monthly income receipts such as ESFA 16-19 funding and FE has to reflect more accounting the activities that relate to that period. Practice varies across the FE sector and the most important issue is to be consistent and ensure that the key messages are profiled and forecasts are reported and presented.

46. Use of accruals can smooth irregular funding profiles and match income more appropriately to costs of delivery. However this can create complex accounting adjustments, and it is important that the management accounts are easy to understand and expenditure performance more complicated.

47. Colleges therefore need to weigh up the benefits of either approach, noting that clear and effective reporting of forecast and turn performance can be a simpler and more effective approach that avoids the need for complex and hard to understand adjustments.

48. Regular checks need to be undertaken as part of the management accounts preparation process to ensure that income recognition is in line with sponsor recruitment and consultation. This is particularly important where payment is made "in arrears" and the college is required to provide evidence of performance against process or planned financial performance should therefore be reported on a regular year. Which colleges may report separately on enrolment and funding performance, it is important that the finance director and senior leaders review the management accounts to demonstrate consistency between enrolment and financial performance indications.

49. Future fees, fees for full-cost activity and education contract income should be reported on a prudent basis. Colleges should be aware of the risk of "over-trading" SORP. This can be an issue for colleges with programmes of varying length, or where there is a significant proportion of fees for full-cost activity. Income should not be recognised in the management accounts at the time the sale, but in accordance with the education contract income it should be the period in which costs are expended that income should be recognised. Management accounts should be prepared on a prudent basis to avoid inappropriate recognition techniques and not need to artificially smooth profiles of recognising any income that has not yet been paid. Whether fees for full-cost activity are recognised should reflect the clearly explained to users of management accounts and consistently applied.

8.2 Expenditure

50. Plan costs will generally be accurate if it is accordance with the payroll period. Exceptions and arise in the form of holiday pay accruals and for holiday periods when payroll runs are not in line with the month end. Colleges need to be aware of the risk of office pay-roll deadline. If need be prudent to make accruals for holiday pay if it is significant.

51. Colleges operating bonus schemes should follow the interim reporting principles, for example, to accrue periods in management accounts if there is a contractual or performance-related entitlement, but with no accrual for discretionary bonuses.

52. Particular care should be taken to ensure the correct classification of sensitive, such as staff costs, between operating expenditure and capital expenditure. Where there is a phase and staff restructuring costs and inclusion of a SORP FRS102 provision.

53. In accounting for non-pay expenditure, it is common practice within the sector to accrue based on purchase orders. This provides a more accurate reflection of the significant orders (orders that exceed the by month then it may be appropriate to reserve a proportion of the order value to reflect the proportion of the order that has been or services has not been performed. This situation may arise with repeated orders (for example, for supplies to be delivered over a period of several months).

54. Similarly, significant costs such as premises rents, accounting, annual maintenance contracts and annual licences may need to be prepaid. On the other hand, it is important that the management accounts do not include significant accruals at the period end (for example, certain charges).

55. For significant expense areas where there are inevitable timing differences between supplier payment and the cost being incurred (for example, consultancy fees and contract costs) it is recommended that the estimated cost is spread over the period of the work. This will provide a more accurate reflection of the cost of the work (cost and other variances (for example, student numbers).

56. Colleges with their own catering and retail operations and franchising are encouraged to report on the profit and loss, balance sheet and cash flow of activities on a line with expectations. Significant differences should be set out and issues that need to be adjusted for prior to publishing the management accounts.

9. Timeliness

57. Timely production of distribution of management accounts is critical if they are to inform actions that may be necessary to address emerging risks and underperformance. Current practice varies widely and which some colleges are able to produce management accounts within 2 working days of the month end, others

58. Whilst there may from time to time be exceptional factors that delay turnaround of management accounts, governors and senior leaders should reasonably expect management accounts to be produced within 10 working days of the month end. There should be a clear, documented month-end closedown process in place to support the production cycle for the management accounts.

59. Most colleges should as a matter of course produce monthly rather than quarterly or half-yearly management accounts.

60. However, it is common practice in the FE sector for colleges to publish the first full set of management accounts for September (such as period 2) rather than August. This is because the August accounts are produced in the month of September and are unrepresentative of a full year of performance.

61. Which it is important to maintain key financial controls and month end closedown processes in August, it may be more appropriate to produce management accounts weather or not to publish their August management accounts, recognising that comparing priority with preparation for external audit and finalisation of the financial statements for the preceding year.

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