

Financial Planning Handbook 2006 to 2009

April 2006

This circular sets out guidance on financial planning information that the Learning and Skills Council (LSC) wishes to receive by 31 July 2006 from further education (FE) colleges.

Further information

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© For action

Responses are requested by 31 July 2006

Supplements

This circular is associated with Supplement A, available on the LSC's website (www.lsc.gov.uk).

Subject

This circular sets out guidance on financial planning information that the LSC wishes to receive from colleges by 31 July 2006.

Intended recipients

Although this circular will be of interest to all providers, only colleges are required to provide three-year financial plans to the LSC.

Supersedes

Circular 05/03: *Financial Plans and Risk Management 2006 to 2008*

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Executive Summary

Date: April 2006

Subject: Financial Plans 2006 to 2009

Intended recipients: Principals and chief executives of further education colleges, finance directors of further education colleges and local Learning and Skills Councils.

Status: For information and response.

This circular updates the guidance issued in Circular 05/03: *Further Education Colleges: Financial Plans and Risk Management 2005 to 2008*.

The circular consists of:

- main circular – this sets out the submission requirements and the frameworks of associated commentaries
- one supplement, Supplement A: Financial Planning Handbook.

Main changes:

- References to latest guidance on *Planning for Success, Funding Claims and Funding Guidance for Further Education in 2006/07*.
- Introduction of Financial Planning Handbook.
- All assumptions updated for 2006.
- Format changes to the financial planning template have been made in response to college suggestions. It is now similar in format to many colleges' management accounts, which will make it easier to follow. Readability and functionality of worksheets has been improved and the order of worksheets changed to make the sequence more logical.
- The requirement for colleges to submit a copy of their risk management and disaster plans to the LSC as part of their financial plan submission has been withdrawn.

Date of response: Returns should be submitted to the regional office no later than 31 July 2006.

Financial Plans 2006 to 2009

1. Introduction

Introduction

1 The purpose of this circular is to provide guidance to further education (FE) colleges on the financial planning information that the Learning and Skills Council (LSC) wishes to receive by 31 July 2006.

2 In publishing this guidance, the LSC has consulted with the College Finance Directors Group (CFDG).

Background

3 *Planning for Success: A framework for planning and quality* sets out the LSC's framework for quality and success by establishing a new planning, funding and accountability system, based on greater partnership and trust, including three-year funding agreements.

4 In autumn 2005, a new format for development plans was introduced, with all colleges and training providers expected to agree a new development plan for 2006/07 onwards with their local LSC. Colleges will be expected to demonstrate how their financial plans support, and are supported by, their development plans.

5 The LSC's business cycle (the cycle) brings together strategic review, planning and funding. The principles on which the cycle is based reflect the LSC's commitment to simplicity, minimal bureaucracy, openness, transparency and trust. The cycle also complements and is reinforced by strategic area reviews (StARs). Together, these two processes will provide much greater clarity in terms of priorities and make the LSC's relationships with colleges and other providers clearer and more responsive. Further guidance on the cycle is contained in *Planning for Success*.

Financial plans

6 The LSC is required, under its financial memorandum with the Department for Education and Skills (DfES), to "monitor the financial health of providers and, as part of this duty, to keep their level of balances under review". In addition to this formal requirement, the LSC assesses colleges' financial health

to understand the degree of risk they may represent to the LSC if they do not have the financial resources to continue operating.

7 When a college ceases to operate, or there is a significant deterioration in its financial position, the LSC faces the risks of:

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

8 Both risks could compromise the LSC's statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, the LSC seeks assurance that the college has the necessary financial resources to:

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

9 The two key financial documents used by the LSC to seek this assurance are the college's three-year financial plan and the college's financial statements. The guidance and submission requirements for the three-year financial plan are provided in this financial planning circular, while the guidance on the completion of the financial statements is provided in the accounts direction circular.

10 The three-year financial plan should be an integral part of each college's own strategic and development plans, as it expresses in financial terms the cost of implementing those plans and shows the income and expenditure associated with projected levels of activity. The financial plan is intended to help each college's governing body and the LSC to assess the financial effect of a college's strategic and development plans. It is important to include in the financial plan the costs of implementing the college's property strategy for the plan period.

11 Colleges are reminded that the governing body should approve financial plans, and that budgets for 2006/07 should be approved before 1 August 2006 (paragraph 10 of Annex B to Further Education Funding Council (FEFC) Circular 99/48: *Financial Memorandum*).

Consultation on financial plan submission date

12 In Circular 05/03 *Financial Plans and Risk Management 2005 to 2008*, the LSC sought views from the sector on whether the submission date for financial plans should be moved from 31 July to 31 December. The submission of the financial plans and the finance record would then have been combined and the reviews of financial plans would have been aligned more closely to colleges' annual development plan reviews.

13 Out of the 336 colleges replying to the consultation, 221 (66 per cent) wanted the submission date of the college's financial plans to the LSC to remain at 31 July. A typical comment was as follows:

For operational purposes it is necessary to have a financial plan in place before the start of a financial year in order that college finances and resources

can be managed effectively. This would remain the case regardless of LSC requirements. The proposal to submit financial plans at 31 December would therefore introduce an additional process, with an attendant demand in terms of preparation and approval of the forecast. Furthermore, it would seem unlikely that the format and content of a December submission would be the same as a 31 July submission. This is likely to cause added complexity and an additional administrative burden.

14 Therefore, the submission date for the college's financial plans will continue to be 31 July for the foreseeable future.

Information requested in July 2006

15 One copy of the documents in Table 1 must be returned to the regional director of finance and resources at the appropriate regional office no later than 31 July 2006.

Table 1: Summary of information requested in July 2006.

	FE colleges	Submission date	Other providers
Provider financial plans			
Principal's Statement	✓	31 July 2006	Not applicable
Three-year financial plan – paper copy	✓	31 July 2006	Not applicable
Three-year financial plan – electronic version	✓	31 July 2006	Not applicable
Commentary	✓	31 July 2006	Not applicable
Associated information			
Risk management plan	X	Not applicable	Not applicable
Disaster management plan	X	Not applicable	Not applicable
Response to consultation	X	Not applicable	Not applicable

16 Where colleges are planning to merge after the deadline for the receipt of the financial plans by the regional office, then all parties must still submit a copy of their three-year financial plan. If the merger is occurring before or on 31 July 2006 then the LSC should only receive a copy of the merged college's financial plan by the required deadline of 31 July 2006.

17 Where a college is developing a strategic recovery plan and cannot provide a reliable three-year financial plan at 31 July 2006, then it must seek consent from the regional office to provide a financial plan for only the first two years. (The first year will show the expected out-turn and the second year will be the budget which must be in place prior to start of financial year). This shortened financial plan must be submitted to the LSC by the required deadline of 31 July 2006.

18 Colleges that need further clarification should contact their regional office at the earliest opportunity.

19 The financial planning template is available to download from the LSC's website (www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/ProviderFinance/ProviderFinancialSupport/Colleges_Financial-Documentation.htm).

2. Financial Planning Handbook

Introduction

20 The LSC has always published an annual financial planning circular to colleges. However, the majority of this annual guidance tended to be a duplication of what had been issued previously to colleges. Therefore, colleges would have to search through lots of paperwork in order to find what was really important for them in preparing their financial plans for the planning period, namely:

- what assumptions should be used
- what changes had been made since the previous year's circular
- what the deadlines are.

21 If a substantial amount of the financial planning guidance does not change from year to year, then it seems logical that this guidance should not be duplicated each year. Then again, by not publishing this guidance it could mean that colleges would have to search through previously issued LSC documents for guidance, looking for documents which might never have been issued. Therefore, the LSC decided to produce the Financial Planning Handbook (the Handbook) which is provided at Supplement A to this circular.

Objectives

22 The Handbook has been prepared in light of the following objectives, to:

- be a one-stop document that colleges can refer to when completing their financial plans
- readily accommodate changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the LSC
- cut down on bureaucracy, in that the LSC will stop publishing financial planning documents if they have not changed.

Format of the Handbook

23 The Handbook has the following contents:

- amendments record list
- monitoring the financial health of providers
- financial planning assumptions 2006/07 to 2008/09

- commentary to the plan
- trend analysis 2001/02 to 2004/05
- financial plan template (Excel spreadsheet)
- guidance on completing the financial plan template
- links to key documents on the Internet
- letters to the sector.

24 The Handbook will be only issued in hard copy format to colleges when substantial changes have occurred since its last publication. Instead, the LSC will publish the latest version of the Handbook on its website (www.lsc.gov.uk/National/Partners/PolicyandDevelopment/FEcolleges-Finance/financial-planning.htm). When the Handbook is updated, a hard copy of the update will be sent to colleges for them to update their version.

25 If you would like to be on a distribution list in order to receive notification and copies of any Handbook updates, please complete the form in the Annex to this circular and return to Provider Financial Management (National Office) either by email or by post.

26 The Handbook has been designed to be a useful document for colleges. If you have any comments on its improvement, please complete the form in the Annex and return it to Provider Financial Management (National Office).

Financial planning assumptions 2006/07 to 2008/09

27 The LSC expects financial plans to be prepared on a realistic basis, taking account of the financial planning assumptions suggested in Section 3 of the Handbook, although no doubt colleges will also wish to consider their financial plans on a worst-case scenario basis. The worst-case scenario should be considered in a sensitivity analysis. The sensitivity analysis should also address more favourable outcomes than those included in the financial plan, where appropriate. The college's sensitivity analysis is expected to form an integral part of the college's risk management plan.

28 In previous years, colleges were requested to provide in their commentary to the financial plan a statement of the key assumptions used and the effects of variations to these assumptions (sensitivity analysis). As the LSC has introduced two schedules for assumptions and sensitivity analysis in the financial planning template for 2006 to 2016, this requirement has ceased. However, if colleges wish to provide further clarification on the assumptions used and/or sensitivity analysis, then they should provide this clarification in the commentary to the plan.

29 As indicated in paragraph 28 above, the LSC has introduced a sensitivity analysis schedule into the financial planning template. This mandatory schedule attempts to conduct "what if" scenarios on the data provided within the financial plan. Where a college would like to provide further sensitivity analysis to accompany its financial plan, then this should be provided in the commentary to the plan.

Commentary to the plan

30 The commentary to the financial plan should demonstrate clearly how the financial plan is consistent with the college's own strategic and three-year development plans and with the local LSC's strategic plan.

31 A suggested framework for the textual commentary to support the financial plans is set out in Section 4 of the Handbook.

32 The increasing emphasis on a plan-led relationship between colleges and the LSC requires that colleges discuss the risks inherent in their plans and appropriate contingency planning with their local LSCs. To provide evidence of the robustness of the financial and risk management plans, the commentary should identify what actions have been agreed in this respect and their financial implications.

Benchmarking

33 In Circular 05/03, the LSC also sought views from the sector on whether they would like the LSC to publish, on an annual basis, a sector-wide summary of the information provided in college financial plans.

34 Out of the 335 colleges replying to the consultation, 316 (94 per cent) wanted the LSC to produce better benchmarking from the financial plans.

35 Therefore, in November 2005 the LSC published a circular consisting of:

- a main circular providing an analysis of the benchmarking data
- a CD providing 96 consolidated financial plans by sector type, regionally and nationally and a benchmarking summary spreadsheet.

36 In addition, the LSC published on 25 January 2006 a spreadsheet containing data collected from 367 out of 387 colleges' finance records for 2004/05 (95 per cent). A copy of this spreadsheet can be downloaded from the LSC's website (www.lsc.gov.uk/National/Documents/SubjectListing/SectorData/CollegeAccounts/college-accounts0405.htm).

37 The LSC wishes to publish better benchmarking on colleges' financial plans. It has been recommended by the CFDG that this could be done if the LSC were to publish individual college financial plans. Therefore, line 10 of the Principal's Statement has been amended to include the words: "I agree that the data listed within this financial plan may be published by the LSC".

38 Section 5 of the Handbook provides some trend analysis between 2001/02 and 2004/05 for some key ratios. It is hoped that colleges will find this benchmarking material useful when preparing their financial plans.

Financial plan template

39 The LSC has been having discussions with representatives of the CFDG on possible improvements to the financial planning documentation since February 2005. As a consequence of these discussions, the LSC made the first steps in conducting a major overhaul of the financial plan template in Circular 05/03. The LSC also promised that it would further improve the financial plan template for subsequent years to ensure that it is further simplified and more user-friendly.

40 Since this date, the LSC has met with representatives of the CFDG to discuss what further changes needed to be made to the template and the timing of the publication of this template. The new 10-year financial plan provided at Section 6 and the accompanying guidance at Section 7 are a direct result of these discussions.

41 The format of the financial plan template has been substantially changed to try to make it follow the format of colleges' financial statements. The hope is that this will make the template easier to complete by the data entry clerk and to follow by all users of the document. For details of all the changes, colleges should refer to paragraph 7.26 of Section 7.

42 A key change is the introduction of five new capital schedules, which will negate the present requirement of the college submitting separate financial plans for each level of LSC capital grant. Therefore, this should save colleges' time and paperwork.

43 A help facility has been created within the template to avoid the need to refer to either this guidance note or the Accounts Direction Handbook.

44 The LSC decided that it would be beneficial to colleges if the revised version of the template were published earlier. Therefore, the LSC published a revised 10-year financial plan and accompanying guidance on 1 October 2005. This financial plan has been further improved with the revised template provided at Section 6 of this Handbook.

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

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

46 The three- and five-year financial plans which were issued with Circular 05/03 have been withdrawn. If colleges need to complete less than 10 years in the financial plan and they are using Excel 2003, then they should hide the respective columns in each worksheet. Where a college cannot hide a column, then it should amend the print area so that only the period that is being reported is printed.

47 The templates are available on the LSC's website (www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/ProviderFinance/ProviderFinancialSupport/Colleges_Financial-Documentation.htm) as Excel workbooks (Excel 97 or Excel 2000 on Windows 95). Disks will not be sent out to colleges unless specifically requested. Completed plans should be submitted to the regional office on disk or via email. A copy should also be sent by email to the national office provider financial management team (pfm@lsc.gov.uk). Colleges unable to use this software should contact the LSC's telephone helpline on the number at the beginning of this circular.

48 For further advice on how to complete the financial plan returns disk, or any other matters associated with this circular, colleges should contact their regional office or the LSC national office helpline on the number given at the beginning of this circular.

3. Other Guidance

Principal's Statement in the financial plan

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

Risk management and disaster management plans

50 The LSC has published guidance for risk management planning to allow colleges to comply with the Turnbull Report on the Combined Code of Corporate Governance. This guidance is available on the LSC website (www.lsc.gov.uk/National/Partners/PolicyandDevelopment/FEcolleges-Finance/default.htm).

51 In previous years, colleges had submitted to the LSC a copy of their risk management and disaster management plans with their three-year financial plans. However, the majority of colleges have now been fully compliant with the requirements of the Combined Code since 31 July 2003. The LSC gains further assurance that the requirements of the Combined Code have been satisfied from the corporate governance and internal control statement in colleges' financial statements and the audit opinion. Therefore, the requirement for colleges to submit a copy of their risk management and disaster plans with the financial plan to the LSC has withdrawn. However, the LSC would expect colleges to continue to update their risk management and disaster plans for uncertainties.

52 Where a college is either submitting a capital project, recovery plan or undertaking a reorganisation, the LSC reserves the right to ask for a copy of the college's risk management plan.

Analysis of key risks

53 In Circular 05/03, colleges were requested to share with the LSC a copy of their risk management plan. After analysing these risk management plans, a summary of the 20 most common risks to the successful delivery of colleges' strategic and development plans are shown in Table 2 opposite.

54 As the LSC is no longer requiring colleges to submit a copy of their risk management plans, it needs a facility for collecting the data on the most common risks to the delivery of the colleges' strategic and development plans. Therefore, the assumptions schedule of the financial plan template includes a section on the top 10 key risks. The LSC will collate this information and then provide a summary as part of the financial

planning benchmarking analysis publication in November 2006.

Resubmission of plan (January 2007)

55 If the college's circumstances have significantly deteriorated since the submission of the financial plan (for example, the actual out-turn for the year to 31 July 2006 is significantly different from the assumption in the plan), colleges will be required to resubmit their plan. To allow such changes to be considered at the college's annual review, the resubmission will be required by 31 January 2007 or at the annual review, if earlier. Colleges that are required to resubmit their plans will be advised by their regional office by 30 November 2006.

Requirement to notify the Learning and Skills Council

56 The college should notify the LSC in writing if at any time there is a significant deterioration in its financial position (FEFC Circular 99/48: *Financial Memorandum* at Annex B, paragraph 33).

Table 2: Top 20 most common risks in colleges' risk management plans at 31 July 2005.

Risk	Description of risk	Number of colleges
1	Failure to meet LSC targets	264
2	Poor recruitment/retention of key/qualified staff	239
3	Poor management information systems, incl. finance	146
4	Budget/capital project overspend/over-run	123
5	IT problems (software/hardware/viruses, etc.)	122
6	Problems with financial health/viability	105
7	Poor college inspection (bad publicity, etc.)	93
8	Decline in retention/achievement of students	80
9	Health & safety risk	78
10	Teaching and social accommodation unsuitable	66
11	Changes in funding methodology	65
12	Failure to comply with legislation	60
13	Local competition	49
14	Failure to meet teaching quality standards	48
15	Failure to respond to changes in government policy	44
16	Insufficient resources to meet accommodation needs	42
17	Failure to secure LSC funding, such as, learner growth	38
18	Reduction/loss of non-LSC funding	36
19	Failure to maintain reputation	32
20	Pay increase higher than anticipated	23

Annex: Comments on Aspects of the Financial Planning Handbook

Distribution List

If you would like to join a distribution list in order to receive notification of when the Financial Planning Handbook has been updated, please complete the form below and return to Provider Financial Management (National Office) either by email (to pfm@lsc.gov.uk) or by post (to Cheylesmore House, Quinton Road, Coventry, CV1 2WT).



Leading learning and skills

Name of college (*please print*):

Contact for queries (*please print*):

Email address:

Telephone number:

Other Comments

If you have any suggestions on improving the content of the Financial Planning Handbook, please write them below and send them to Provider Financial Management (National Office) at the above address.

Notes

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