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Cheylesmore House
Quinton Road
Coventry CV1 2WT

COLLEGE ACCOUNTS

To	Principals of colleges
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Summary	College accounts 1999-00
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Executive Summary

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Subject: Summary information extracted from college accounts for the year ended 31 July 2000

Intended Recipients: This is of interest to college principals and chairs of corporations

Status: For information

Content The document is set out as follows:

Summary information on the financial performance of sector colleges for the financial year ended 31 July 2000

Annex A – Definitions of financial health groups

Enquiries

Provider financial support helpdesk
024 7649 3592

College Accounts

Introduction

This report contains summary information extracted from college accounts for the year ended 31 July 2000. Similar data for the financial periods ended 31 July 1995 to 31 July 1999 was included in FEFC circulars 96/29, 97/35, 98/43, 00/10 and College Accounts Publication (Feb 2002).

The financial health of colleges is assessed in relation to their solvency and their ability to implement the financial aspects of their strategic plan. Definitions of financial health groups are given in Annex A.

Summary information for college accounts is available on the Council's website, www.lsc.gov.uk within the Statistical Documents section. The information can be used to assist colleges in making benchmarking comparisons.

COLLEGE ACCOUNTS 1999-00

Background

1 Under the terms of the financial memorandum between colleges and the Council, colleges are required to produce audited accounts within five months of the financial year end, that is by 31 December 2000, for the 1999-00 financial year.

2 A full set of audited accounts and a finance record are to be sent to the Council. Only 408 colleges have submitted finance records out of the 422 returns expected which is equivalent to a 97% return rate. The Finance Record data is recorded in its entirety on the Council's database and is used for many statistical purposes.

3 Colleges are required to make their audited accounts available to members of the public. This report and the associated financial information on the Council's website are part of the effort to encourage openness and accountability.

Summary

4 Table 1 shows the number (and percentage in brackets) of colleges in each financial health group at 31 July 2000 and for the five previous years.

Table 1. The Number (and percentage) of Colleges in each of the financial health groups 1995-2000

	1995	1996	1997	1998	1999	2000
Group A	257 (57%)	206 (46%)	197 (44%)	213 (49%)	250 (58%)	245 (58%)
Group B	135 (30%)	148 (33%)	151 (34%)	142 (33%)	113 (26%)	103 (24%)
Group C	60 (13%)	93 (21%)	96 (22%)	80 (18%)	70 (16%)	74 (18%)

Source: Assessed financial health groups for colleges after the financial statements for the period ending in that year were evaluated or latest financial health information if Finance Record was not submitted.

Income

5 The total income for the sector for the year ended 31 July 2000 is approaching £4.3 billion. This represents an increase of some £209 million on the 1998-99 financial year.

Grant income

6 Colleges generate the majority of their income from public funds, including those from the Council. The Council remains the major source of income for

the sector, providing approximately 69% of total income. Other public sources of income received during this financial year include Training and Enterprise councils, European funding and Local Education Authorities.

Diversification of income

7 The diversity of income is measured by the income derived from sources other than the Council. The trend since incorporation is shown in table 2.

Table 2. Diversity of income

	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %
Percentage of income* from non-Council sources	30.1	26.7	26.4	28.3	29.3	30.7

Source: Total of values reported in College Finance Records for each financial period.
* Calculated ratio uses adjusted income.

8 Table 2 shows that the percentage of non-Council income received by colleges during the financial year has increased by 1.4% compared with the last year. This is approximately worth £115 million. For the 1999-00 financial year Training and Enterprise (TEC) funding was £126m (3% of total income). With effect from 2001-02 all TEC funding will be included within the LSC funding allocation.

9 The diversity of income varies according to the type of institution. Further details on sector diversity are set out in paragraphs 17-21 of this publication.

Pay

10 For the sector as a whole, the majority of colleges' expenditure is on staff resources. Details on the trend of pay costs as a percentage of income since incorporation are shown in table 3.

Table 3. Pay expenditure as a percentage of colleges' income

	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %
Including restructuring costs	71	71	67	64	64	66
Excluding restructuring costs	69	68	65	64	63	65

Source: Total of values reported in College Finance Records for each financial period.
* Calculated ratio uses adjusted income.

Operating Position

11 In accordance with the financial memorandum between the Council and colleges, colleges are expected to break-even on an operating basis from year to year. Details of the operating position for the sector for the period 1995-2000 are shown in table 4.

Table 4. Operating outturns for the period 1995-2000

Year Ended 31 July						
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Total operating surplus/(deficit) £m	(122)	(123)	(29)	34	1	(26)
Surplus/(deficit) as a percentage of income* %	(3.5)	(3.4)	(0.8)	0.9	0.0	(0.6)
Number of colleges with an operating deficit	266	266	207	186	176	208

Source: Total of values reported in College Finance Records for each financial period.
* Calculated ratio uses adjusted income.

Reserves

12 Table 5 below shows an analysis of reserves for the sector.

Table 5. Accumulated general reserves for the sector

	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Accumulated balances (£ million)	276	309	402	545	644	752
Accumulated balance as a percentage of income* %	7.9	8.6	10.8	14.6	16.5	18.3
Number of colleges with negative reserves	73	81	67	50	39	36

Source: Total of values reported in College Finance Records for each financial period
* Calculated ratio uses adjusted income.

Solvency

13 Two main ratios are used by the Council to indicate a measure of the solvency of the sector and individual colleges. These are the current ratio and the number of cash days in hand.

14 The Council has advised colleges that they should aim for a current ratio of 1.5:1 or above. A ratio of 1.5:1 will provide a margin of security to a college in meeting its liabilities as they fall due. Colleges may be able to operate safely on current ratios below 1.5:1 in some circumstances.

15 The trend for the sector for the current ratio for the period 1995-2000 is set out in table 6.

Table 6. Comparison of the current ratio for the sector

Year Ended 31 July						
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Current ratio for the sector	1.7	1.5	1.7	1.7	1.6	1.5
Number of colleges with ratio below 1:1	69	89	86	79	84	92

Source: Total of values reported in College Finance Records for each financial period

16 The number of cash days in hand is a measure of the cash that a college has available to meet its liabilities. A college in financial health group A would normally have at least 25 cash days in hand. The funding profile for colleges is such that July (the month at which the ratio is determined) is likely to be the month with the lowest cash balance for most colleges. The trend for the sector for this ratio for the period 1995-2000 is set out in table 7.

Table 7. Comparison of cash days in hand for the sector

Year Ended 31 July						
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Cash days in hand for the sector	46	42	46	55	64	68
Number of colleges with less than 25 cash days in hand	121	149	129	109	85	67

Source: Total of values reported in College Finance Records for each financial period.

Comparison of Sector Types

17 The above tables indicate the financial performance for the sector as a whole. The following shows an analysis of the data for the types of further education colleges.

Table 8. College ratios by type for year ended 31 July 2000

	Agriculture & horticulture colleges	Art, design & performing arts colleges	General FE and tertiary colleges	Sixth form colleges
Current ratio	1.7	1.8	1.6	2.8
Cash days in hand	53	77	64	88
Operating surplus/(deficit) income* %	(2.2)	(0.2)	(1.0)	(0.7)
General reserve/income* %	25.7	20.4	16.2	28.5
Pay expenditure/income* %	56.2	61.9	65.7	71.7
Income from non-Council sources* %	50.7	51.7	30.4	10.4

Source: Average taken from individual College Finance Records for each financial period.
* Calculated ratio uses adjusted income

Agriculture and horticulture colleges

18 Table 9 shows the accounting ratios for agriculture and horticulture colleges for the period 1995-2000.

Table 9. College ratios for agriculture and horticulture colleges for the period 1995-2000

	1995	1996	1997	1998	1999	2000
Current ratio	2.0	1.9	1.9	1.9	2.0	1.7
Cash days in hand	43	34	41	35	40	53
Operating surplus/(deficit) income* %	(2)	(2)	(2)	(3)	(2)	(2)
General reserve/income* %	20	21	22	23	23	26
Pay expenditure/income* %	54	55	55	55	55	56
Income* from non-Council sources %	53	52	53	52	52	51

Source: Average taken from individual College Finance Records for each financial period.
* Calculated ratio uses adjusted income

Art, design and performing arts colleges

19 Table 10 shows the accounting ratios for art, design and performing arts colleges for the period 1995-2000.

Table 10. College ratios for art, design and performing arts colleges for the period 1995-2000

	1995	1996	1997	1998	1999	2000
Current ratio	2.1	2.7	1.7	2.0	2.0	1.8
Cash days in hand	71	79	54	65	70	77
Operating surplus/(deficit) income* %	1	(2)	(4)	0	0	(0)
General reserve/income* %	16	11	13	17	20	20
Pay expenditure/income* %	64	69	68	64	62	62
Income* from non-Council sources %	47	45	42	43	47	52

Source: Average taken from individual College Finance Records for each financial period
* Calculated ratio uses adjusted income.

General further education and tertiary colleges

20 Table 11 shows the accounting ratios for general further education and tertiary colleges in the period 1995-2000.

Table 11. College ratios for general further education and tertiary colleges for the period 1995-2000

	1995	1996	1997	1998	1999	2000
Current ratio	1.6	1.4	1.6	1.9	1.9	1.6
Cash days in hand	44	39	44	52	61	64
Operating surplus/(deficit) income* %	(4)	(4)	(1)	1	0	(1)
General reserve/income* %	7	7	9	13	15	16
Pay expenditure/ income* %	72	71	67	64	64	66
Income* from non-Council sources %	31	27	27	28	29	30

Source: Average taken from individual College Finance Records for each financial period.
* Calculated ratio uses adjusted income.

Sixth form colleges

21 Table 12 shows the accounting ratios for sixth form colleges in the period 1995-2000.

Table 12. College ratios for sixth form colleges for the period 1995-2000

	1995	1996	1997	1998	1999	2000
Current ratio	2.3	2.5	2.8	3.7	3.4	2.8
Cash days in hand	67	64	68	82	88	88
Operating surplus/(deficit) income* %	0	0	0	1	2	(1)
General reserve/income* %	15	17	21	24	26	29
Pay expenditure/ income* %	74	74	72	71	70	72
Income* from non-Council sources %	7	8	8	9	10	10

Source: Average taken from individual College Finance Records for each financial period.
* Calculated ratio uses adjusted income.

DEFINITIONS OF FINANCIAL HEALTH GROUPS

The definitions stated here have been taken from the Council's circular 02/11 *Financial Planning and Associated Information*. The definitions in use when the financial statements were required to be submitted were included in FEFC circular 99/25 *Strategic Plans Including Financial Forecasts*.

Group A

1 Colleges that appear to have sufficiently robust finances to implement their strategic plan and to deal with the circumstances which are most likely to occur during the planning period.

2 These colleges will normally have:

- a positive cashflow from operations each year;
- more than 25 days cash in hand;
- a current ratio above 1.5:1;
- a positive balance on their general reserve (income and expenditure account);
- an operating surplus year on year; and
- total borrowing less than 50% of their general reserve (income and expenditure account).

3 These colleges will also have carried out a rigorous sensitivity analysis and modelled the issues which are most critical to their success. They will also have identified contingency plans to deal with the most adverse variances.

Group B

4 Colleges that show signs of financial weakness which might limit their ability to implement their strategic plan if they encounter adverse circumstances during the planning period.

5 Colleges in this group are likely to have weaker solvency than those in group A but should still have:

- a positive cashflow from operations each year;
- more than 15 cash days in hand;
- a current ratio between 1.0:1 and 1.5:1;
- a positive balance on their general reserve (income and expenditure account);
- operating position at break even; and
- total borrowing no greater than their general reserve (income and expenditure account).

6 In addition, this group also covers those colleges that may appear to have features similar to those for group A but whose assumptions appear either over-ambitious or optimistic. For example, some colleges in group B are planning significant efficiency savings without having robust plans to achieve those savings. Some colleges may have included income generation without a supporting business plan. In addition, this group also includes colleges that are improving from a group C position.

Group C

1 Colleges that are financially weak and which are, or may become, dependent on the goodwill of others. This might involve, for example, a loan from their bank for solvency purposes.

2 Colleges in this position are likely to have:

- a cash outflow from operations in one or more years;
- less than 15 cash days in hand;
- net current liabilities (current ratio less than 1.0:1) in one or more years;
- an accumulated deficit on their general reserve account;
- an operating deficit; and
- total borrowing in excess of their general reserve (income and expenditure account).