

Supplement C to Circular 04/04

Notes and Guidance on the Finance Record 2003/04

(Further Education Colleges Only)

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Section 1: Changes to Format of the Finance Record

- 1 The format used for the January 2004 finance record, as set out in Circular 03/08 *Further Education Colleges: Accounting Policies and Return of Audited Financial Statements*, has been amended to include optional benchmarking schedules. These schedules will be mandatory in 2004/05.
- 2 The changes to the 2003/04 finance record from the 2002/03 finance record are stated in Table 1.

Table 1: Changes to 2003/04 finance record from the 2002/03 finance record.

2003/04 finance record	2002/03 finance record
Form 2A: non-pay expenditure form	
Line 5: General education expenditure (a) Marketing (b) Exams (c) Other	Line 5: General education expenditure
Line 11: Payments to non-college Ufi centres	New line
Line 12: Miscellaneous	Line 11: Miscellaneous
Line 13: Depreciation	Line 12: Depreciation
Line 14: Interest on SSAP 24 provision	Line 13: Interest on SSAP 24 provision
Line 15: Other interest payable	Line 14: Other interest payable
Line 16: Taxation	Line 15: Taxation
Line 17: Total non-pay expenditure	Line 16: Total non-pay expenditure
Schedule 1: LSC funding and other items	
Line 1: Ethnic minority student achievement grant (section 11)	Line 2: Ethnic minority student achievement grant (section 11)
Line has been removed	Line 3: Basic Skills Quality Initiative
Line has been removed	Line 4: Individual learning accounts
Line 2: Local Initiative Development Fund	Line 5: Local Initiative Development Fund
Line has been removed	Line 6: Further Education Standards Fund

Line 3: Other support payments	New line
Line 4: European Social Fund co-financing	Line 7: European Social Fund co-financing
Line has been removed	Line 8: Widening participation strategic partnerships
Line 5: Ufi	Line 9: Ufi
Line 6: Centres for Vocational Excellence	Line 10: Centres for Vocational Excellence
Line has been removed	Line 11: Teachers' Pay Initiative
Line 7: Exceptional support package	Line 12: Exceptional support package
Line has been removed	Line 13: Success for All
Line 8 (blank line)	New line
Line 9: Other LSC income	Line 14: Other LSC income
Line 10: Total	Line 15: Total
Line 11: Learner support funds a) Access funds Line 11: Learner support funds b) Childcare support c) Residential bursaries	Line 16: Learner support funds: Access funds Line 1: Learner support funds a) Childcare support b) Residential bursaries
Line 12: Total number of subsidiaries	Line 17: Total number of subsidiaries

3 The following items have been deleted from the 2003/04 finance record.

- Schedule 1, line 2: Basic Skills Quality Initiative
- Schedule 1, line 3: Individual Learning Accounts
- Schedule 1, line 5: Further Education Standards Fund
- Schedule 1, line 7: Widening Participation Strategic Partnerships
- Schedule 1, line 11: Teachers' Pay Initiative
- Schedule 1, line 13: Success for All.

4 The following items have been added to the 2003/04 finance record.

- Form 2A, line 5: General education expenditure. There is now a requirement to split the expenditure in this line between marketing, exams and other.
- Form 2A, line 11: Payments to non-college Ufi centres.

Section 2: Finance Record 2003/04

- 5 The finance record 2003/04 covers the 12-month period ending 31 July 2004. It requires colleges to complete the following:
- Form 1: Income and expenditure account
 - Form 2A: Non-pay expenditure
 - Form 2B: Pay expenditure
 - Form 3: Balance sheet
 - Form 4: Cash flow statement
 - Schedule 1: LSC funding allocation and other items
 - Schedule 2: Expenses
 - Schedule 3: Miscellaneous.
- 6 It includes the first column of forms 1, 2A, 2B and 4 and Schedule 1B of the three-year financial plan, and the second column of Form 3. Please note that Schedule 1 of the finance record is the equivalent to Schedule 1B of the financial plan.
- 7 The finance record for 2003/04 also includes three optional schedules:
- Schedule 5: Supplementary income data
 - Schedule 6: Non-pay expenditure
 - Schedule 7: Pay expenditure
- 8 These schedules have been included to enhance the level of benchmarking data available to the sector. Completion of the schedules will be optional in 2003/04 but will be mandatory from 2004/05 onwards.
- 9 Colleges are asked to complete the column of figures in forms 1, 2A, 2B, 3 and 4 and Schedules 1, 2 and 3 and return this information to the LSC. Please ensure that line 1(a)(iii) of Form 1: Release of capital grants, includes only LSC capital grants.
- 10 Where there are variances between the final outturn for 2003/04 and the forecast provided in July 2004 greater than 1 per cent at the total expenditure line or total income line, colleges should explain the variances in an accompanying commentary.
- 11 The workbook Record04.xls contains the finance record forms for 2003/04. Paragraph 203 below provides details on how to download the workbook.

Section 3: Guidance on Completing the Finance Record

Introduction

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

Finance records

- 13 The finance records are used for a number of purposes. The LSC expects colleges to use the record for internal planning and monitoring purposes, and reviews each financial statement and finance record alongside the three-year development plan, property plan and other information. This is done in order to form an opinion on the financial health of the college and to determine whether there are issues to raise with the college. The LSC also considers whether it agrees with the college's self-assessment of its financial health.
- 14 The LSC aggregates all finance records to give a summarised view of the financial health of the sector. This summary 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.
- 15 The LSC also uses the aggregate data to respond to ad hoc queries from colleges and the department.

Details

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

Form 1: Income

- 17 The record requires colleges to analyse income sources and movements in this income. 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, in order to determine the dependency of a college on particular sources of income.

- 18 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

19 This will include:

a LSC income:

- recurrent grant – allocation, including growth allocation
- work-based learning income – including income from youth training, employment training, income from youth credits and trainee allowances
- 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); and
- other LSC income – this includes income from other initiatives such as summer schools, Ufi and the further education standards fund from Schedule 1.

20 Colleges should treat funds identified for capital purposes as deferred capital grants and credit them to a deferred capital grant account on the balance sheet. They should release the funds to the income and expenditure account in accordance with Statement of Standard Accounting Practice (SSAP) 4 *Accounting for Government Grants*, to reflect the revenue charges arising from the capital expenditure.

b Higher Education Funding Council for England (HEFCE) income:

- recurrent grant – include income received direct from HEFCE for prescribed higher education, including that transferred from the LSC
- franchised and associated providers – income to the college from higher education institutions for the provision of higher education courses
- release of capital grants; and
- other HEFCE income.

Line 2: Tuition fees and education contracts

21 This will include:

a European Union:

- United Kingdom
- other European Union

b non-European Union – tuition fees and charges received from learners from outside the European Union

- c higher education – tuition fees and charges received for all courses of prescribed higher education
 - d employer-led provision:
 - dedicated
 - other
 - e local education authority contracts – all local education authority 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).
- 22 To assist the LSC to monitor the achievement of targets for employer contributions, we ask colleges to record separately tuition fees for employer-led provision and, as a subset of this, fees for dedicated employer provision. Include in these headings the fees associated with learners recorded on the individualised learner record in any of the following fields:
- A21 franchised-out arrangements codes (22) and (23)
 - A19 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

- 23 This will include:
- a European funds – revenue grant income from European structural funds. Include the release of European Regional Development Fund 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:
 - repayment of European funding – this will include repayments of European funding as a negative figure. Disclose the type of European funding, for example European Social Fund, 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

- 24 This will include the following:
- a catering, residence and conference income – this item should also include any surpluses paid to the college from contracted-out services
 - b farming activities

- 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 or 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 and HEFCE) – include capital grants from non-LSC sources; and
- f miscellaneous income (excluding investments) – this will include:
 - examination fees – include those for professional examinations; and
 - other income – include all other sources of income not shown elsewhere and income from training restaurants and bars, beauty treatments, learner stationery sales, educational visits, value added tax and rates recovered, nursery, gym, sundry income (for example, library).

Line 5: Endowment and investment income

25 This will include:

- investment income – include any other investment income earned, such as income from the investment of short-term funds and the realisation of investments held as long-term funds. Do not include interest that will be shown at line 5b; and
- interest received and receivable – include interest from all sources.

Line 6: Total income

26 This is the sum of lines 1 to 5.

Line 7: Total expenditure

27 This is taken from line 16 on Form 2B.

Line 8: Surplus/(deficit)

28 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

29 This line shows the surplus or deficit on asset disposals, net of any disposal expenses.

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

30 This line shows the surplus or deficit including asset transactions after taxation (line 8(b): Surplus/(deficit) after tax plus line 9: Surplus/(deficit) on asset disposals).

Statement of historical cost surpluses and deficits

Line 11: Surplus/(deficit) on continuing operations after tax

31 This is taken from line 10.

Line 12: Transfer (to)/from revaluation reserve

32 This is the sum transferred from the revaluation reserve to the income and expenditure account in order 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 13: Historic cost surplus/(deficit)

33 This is the surplus or deficit in the year after the transfer to or from the revaluation reserve (line 11 plus line 12).

Movement in the income and expenditure account reserve

Line 14: Balance brought forward on the income and expenditure account

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

Line 15: Historic cost surplus/(deficit)

35 This is taken from line 13.

Line 16: Transfer (to)/from restricted reserves

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

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

Line 17: Transfer (to)/from designated reserves

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

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

Line 18: Balance carried forward on the income and expenditure account

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

Form 2A: Non-pay expenditure

41 The same breakdown of information is requested for non-pay and pay expenditure using the broad headings of teaching, other support, administration and premises. This analysis assists the LSC in responding to queries on teaching costs versus administration costs. We use the analysis to prepare benchmarking data for colleges on levels of expenditure.

42 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, and insurance and revenue building works. Include these in the appropriate expense categories below.

Line 1: Teaching departments

43 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

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

- library – collections of learning support materials such as books, periodicals, slides and video tapes, and including learning support centres if these are organised under the control of the college library
- computer and resource-based learning centres – the provision of computing facilities for the learner body as a whole. The running costs of administrative computers and charges for the administrative use of a central computer will be shown under line 4 and not here
- additional support costs – the non-pay cost of any additional support provided over and above the programme activities included in a standard learning programme, in order to help an individual learner to complete his or her learning programme. This could include the cost of a diagnostic assessment,

specialist support, transport between college sites and materials. Equipment purchases will not be included here

- learner guidance on enrolment
- any non-pay recharge from the Learner Support Fund
- payment to student unions
- recreation services such as non-curricular music, drama and sport
- medical services
- learner services such as careers advisory services, welfare services and specific charges for counselling
- learner transport.

Line 3: Other support services

45 This will include:

- staff training (including costs of seminars)
- print services
- expenditure on facilities such as theatres and galleries, except those run by teaching departments, which will be included in line 1
- curriculum-development costs
- nursery and work placements.

Line 4: Administration and central services

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

- revenue costs of administrative computing
- bank charges (excluding interest charges, which are covered at line 14 below)
- legal and audit fees
- insurance premiums other than buildings insurance, which is covered at line 6(a) below
- travel and subsistence costs of the principalship and administrative staff
- recruitment costs, surveyors' fees, postage, telephones, subscriptions and payroll services
- copyright licence, revenue-running costs of payroll, central licences
- administration costs of using agency or part-time staff, whether this function is carried out centrally or in departments.

Line 5: General education expenditure

47 This expenditure is to be split over the following headings:

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

48 In the financial statements, a split over the above headings is not required.

Line 6: Premises

49 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- 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

50 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 in order to secure the income.

Line 10: Franchised provision costs

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

Line 11: Payments to non-college Ufi centres

52 Include all payments to non-college Ufi centres.

Line 12: Miscellaneous

53 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 are as follows:

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

Line 13: Depreciation

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

Line 14: Interest on SSAP 24 provision

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

Line 15: Other interest payable

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

Line 16: Taxation

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

Line 17: Total non-pay expenditure

58 This is the sum of lines 1 to 16.

Form 2B: Pay expenditure

59 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

60 This will include:

- 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 that 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
- 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

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

- libraries – the cost of all employees, wholly or mainly engaged in library duties or with other learning support centres under the control of the library
- computer and resource-based learning centres – the cost of staff managing and running such centres. The cost of staff engaged in administrative computing work will be shown under line 4
- additional support – the cost of staff providing additional support to individual learners over and above the programme activities included in a standard learning programme. This could include literacy or numeracy support, counselling, teachers of the deaf, Braille support and communicators or interpreters
- learner guidance on enrolment
- the cost of administrating access funds and any pay recharge from the Learner Support Fund
- college nurses, learner welfare officers, recreation tutors, accommodation officers, careers officers and counsellors.

Line 3: Other support services

62 This will include:

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

Line 4: Administration and central services

63 Include the pay and costs of other emoluments of staff such as the principalship, the directorate and support staff such as finance, personnel and administration.

It also includes:

- management information systems
- registry (examinations)
- computer maintenance or software development
- staff involved in fundraising or community-focused roles
- data input staff

- work-based learning and New Deal administration costs
- timetabling staff
- quality unit
- marketing – including learner recruitment, publicity and promotion
- examinations.

Line 5: Premises

64 This will include:

- running costs – the cost of cleaning, caretaking and security staff
- 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

65 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, identify costs separately.

Line 9: Franchised provision costs

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

Line 10: Miscellaneous

67 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 or research expenditure, then they will be included here.

Line 11: Contract tuition services

68 This will include the pay costs of agencies used for providing tuition services. Although the LSC requires contract tuition services to be shown as pay expenditure in the finance record, the FE&HE SORP states that contract tuition services must be shown as non-pay expenditure in the college's financial statements.

Line 12: Total pay expenditure before restructuring

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

Line 13: Staff restructuring

70 This will include:

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

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

72 Guidance on calculating SSAP 24 provisions is contained in Supplement B of Circular 03/08.

Line 14: Total pay expenditure after restructuring

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

Line 15: Total non-pay expenditure

74 This is line 17 from Form 2A.

Line 16: Total expenditure

75 This is the sum of lines 14 and 15.

Line 17: Average monthly number of persons (including senior postholders) employed by the college during the year expressed as full-time equivalents (excluding contract tuition staff)

76 Colleges should be disclosing in their financial statements the average monthly number of persons (including senior postholders) employed by the college during the year. Colleges are requested to transfer these details to lines 17(a) to 17(g) of the finance record as detailed below:

- a teaching departments:
 - teaching staff
 - other staff
 - b teaching support services
 - c other support services
 - d administration and central services
 - e premises
 - f other
 - g total.

Form 3: Balance sheet

Line 1: Fixed assets

77 Fixed assets include:

- inherited land and buildings – the value of land and buildings acquired on vesting day
- the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation
- the value of all other land and buildings valued at cost or subsequent revaluation
- the value of equipment acquired on vesting day
- the value of equipment acquired post-vesting day, funded by capital grant and valued at cost
- the value of all other capitalised equipment valued at cost or subsequent revaluation
- investments held as long-term assets and endowment assets valued at the lower of cost or market value
- other fixed assets such as intangible assets, that is, licences, milk quotas and financial instruments
- total of lines 1(a) to 1(h).

Line 2: Current assets

78 This will include:

- a stocks – the value of stocks such as farm stock at the lower of cost or realisable value
- b debtors
- c Cash and short-term investments (C&STI)
- restricted C&STI from disposal of fixed assets and held for future fixed-asset acquisitions (see paragraphs 77 to 84 of Circular 03/08 for guidance)
- other short-term investments and cash
- total cash and short-term investments
- d total of lines 2(a) to 2(c).

Line 3: Creditors: amounts falling due within one year

79 This will include:

- overdrafts
- other loans falling due for repayment within one year
- a deficit loan repayable inside one year

- trade creditors
- amounts due to the Inland Revenue and pension funds
- payments on account and deferred income
- all other short-term creditors – include any monies due to the LSC for recovery of funds for underachievement
- total of lines 3(a) to 3(g).

Line 4: Net current assets/(liabilities)

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

Line 5: Total assets less current liabilities

81 Line 1(i) plus line 2(d) minus line 3(h).

Line 6: Creditors: amounts falling due after one year

82 This will include:

- loans falling due for repayment after one year
- the portion of any LEA deficit loan falling due for repayment after one year
- other long-term liabilities
- total of lines 7(a) to 7(c).

Line 7: Total provisions

83 This should include long-term provisions.

Line 8: Total assets less liabilities

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

Line 9: Deferred capital grants

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

Line 10: Revaluation reserves

86 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

87 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

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

Line 13: Income and expenditure account

89 The accumulated balance on the income and expenditure account.

Line 14: Total reserves

90 The sum of lines 10 to 13.

Line 15: Total (including deferred capital grants)

91 The sum of lines 9 and 14.

Form 4: Cash flow statement

92 This schedule calculates a cash flow statement, as required by Financial Reporting Standard 1 (FRS 1) *Cash Flow Statements (revised 1996)*. The entries on this form are as follows:

- cash is regarded as cash-in-hand, deposits and overdrafts repayable on demand (under one working day's notice)
- liquid resources are (readily disposable) current asset investments. They are capable of disposal without disrupting the business and are either traded in an active market or readily convertible into known amounts of cash. Liquid resources include items such as money market deposits, listed investments and local authority bonds
- net debt is defined as borrowings under FRS 4 *Capital Instruments*, plus obligations under finance leases less cash and liquid resources. This includes any loans, debentures or balance on inherited deficit loans
- an additional section on management of liquid resources is included in the cash flow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments
- the standard requires a separate reconciliation of net cash flow to movement in net debt.

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

93 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 or deficit generated in the period by adjusting for:

- depreciation
- deferred capital grants released to income

- profit or loss on disposal of fixed assets
- increase or decrease in stocks
- interest payable
- increase or decrease in debtors
- increase or decrease in trade creditors
- increase or decrease in tax and pension contributions
- increase or decrease in other payments on account
- increase or decrease in other liabilities
- increase or decrease in provisions
- interest receivable.

Line 2: Returns on investments and servicing of finance

94 Shows the cash inflow or outflow in the period through:

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

Line 3: Taxation

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

Line 4: Capital expenditure and financial investment

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

Line 5: Management of liquid resources

96 This shows the cash inflow or outflow in the period from:

- withdrawals or disposals – this will be positive

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

Line 6: Financing

97 This shows the cash inflow or outflow in the period from:

- new secured loans
- new unsecured loans
- repayments of amounts borrowed – secured and unsecured loans
- repayment of the LEA deficit loan
- capital element of finance lease rental payments; and
- net cash inflow or outflow from financing – the sum of lines 6(a) to 6(e).

Line 7: Increase/(decrease) in cash

98 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)

99 This shows the change in net debt or net funds during the course of each year:

- increase or decrease in cash – this will equal line 7
- cash to repay debt – this will equal the sum of lines 6(c) and (d)
- cash used to increase liquid resources – this will equal line 5(c)
- new loans and finance leases
- change in net funds or debt is the sum of lines 8(a) to (d)
- net funds or debt at the beginning of the year; and
- net funds or debt at the end of the year.

100 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?

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

Line 10: College’s self-assessment of financial health

102 The LSC requests colleges to insert their assessment of the most appropriate financial health group for the college on Form 4 (at line 10).

Line 11: Principal’s certificate

103 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 2004. By signing the form, the principal also agrees to the data within the finance record being published by the LSC at a later date. However, the LSC 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

104 This schedule is used in order to estimate the amount of other income received from the LSC. The total income received is carried forward to Form 1, line 1(a)(iv).

Completion of the schedule

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

Line 1: Ethnic minority student achievement grant (section 11)

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

Line 2: Local Intervention Development Fund

107 This is income received from the local LSC's Local Intervention Development Fund.

Line 3: Other support payments

108 Additional discretionary payments to colleges with participation quality improvement development needs including any residual standards fund payments.

Line 4: European Social Fund co-financing

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

Line 5: Ufi projects

110 This is income received for Ufi projects separate from that included at Form 1, line 1(a)(i).

Line 6: Centres of Vocational Excellence

111 This is income relating to the funding of Centres of Vocational Excellence.

Further details regarding this fund can be found in LSC Circular 02/08 *Centres of Vocational Excellence*.

Line 7: Exceptional support package

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

Line 8: Blank line

113 This line is for any material other LSC income received.

Line 9: Other LSC income

114 This is all other learning and skills income not included in the categories above.

Line 10: Total

115 The sum of lines 1 to 14.

Line 11: Learner support funds

116 This is the income from the Learner Support Fund spent in the year split into:

- access funds
- childcare support – this is income received from additional childcare support. Further details regarding this fund are in LSC Circular 01/12 *FE Childcare Places Grant Programme 2001/02 to 2003/04*
- residential bursaries

117 Income and expenditure from the Learner Support Fund should not be included in the college's income and expenditure account as per guidance issued in Supplement A of this circular.0

Line 12: Total number of subsidiaries

118 Please enter the number of subsidiaries owned or partly owned by the college.

Schedule 2: Expenses

Purpose of schedule

119 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 postholders' emoluments

120 Please include the number of senior postholders, including the principal, at line

1. Lines a to f will include:

- principal's salary – the gross salary paid to the principal
- principal's benefits in kind – to include all benefits in kind which are disclosed to the Inland Revenue
- principal pension contribution – this should be the college's contribution to the principal's pension
- senior postholders' salary – to include the gross salary paid to senior postholders including the principal's salary
- senior postholders' benefits in kind – to include all benefits in kind which are disclosed to the Inland Revenue, including the principal's benefits in kind
- senior postholders' pension contribution – this should be the college's contribution to senior postholders' pensions, including the contribution to the principal's pension; and
- senior postholders' 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

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

Line 3: Overseas activities

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

Line 4: Audit fees

123 This will indicate the amount that has been paid for internal audit, financial statements audit and other audit services.

Line 5: Name of financial statements auditors

124 Include details of the college's financial statements auditors.

Line 6: Name of funding auditors

125 Include details of the college's funding auditors.

Line 7: Name of internal auditors

126 Include details of the college's internal auditors.

Line 8: Financial Reporting Standard 17 Retirement Benefits disclosure note

127 Colleges should be including in their 2003/04 financial statements a disclosure note on the effect of implementing FRS 17 *Retirement Benefits*. Colleges are requested to disclose at line 8(b) the amount of the net pension asset or liability after complying with FRS 17.

Schedule 3: Miscellaneous

Line 1: Does the college have any contingent liabilities?

128 Include a brief description of any contingent liabilities and state a value, if known.

Line 2: Does the college have any exceptional items?

129 Include a brief description of any exceptional items and state a value, if known.

Line 3: Does the college have any prior year adjustments?

130 Include a brief description of any prior year adjustments and state a value, if known.

Line 4: Does the college have any post-balance sheet events?

131 Include a brief description of any post-balance sheet events and state a value, if known.

Schedule 4: Ratio Analysis

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

Line 1: Income used in ratio analysis

133 The income used in this financial ratio is calculated as follows:

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

Line 2: Short-term solvency

134 The ratios under this heading indicate the short-term liquidity of the college. The ratios are as follows.

- Cash days in hand – this indicates the number of cash days the college has in hand to pay its creditors. A college which has, or aspires to have, robust financial health should look to have at least 25 cash days in hand. The ratio is calculated as follows:

Total cash and short-term investments (Form 3, line 2(c)(iii)) less bank overdrafts (Form 3, line 3(a)) multiplied by 365 (days) divided by total income (calculated at paragraph 133 above).

- Current ratio – this compares the college's current assets with its current liabilities. A college which has, or aspires to have, robust financial health should look to have at least a current ratio of 1.5:1. The ratio is calculated as follows:

Total current assets (Form 3, line 2(d)) divided by total current liabilities (Form 3, line 3(h)).

- Quick ratio – this ratio (commonly called the acid test) is calculated in the same way as the current ratio, except stock is first removed from the current assets total. The ratio is calculated as follows:

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

- Debtors days (excluding Funding Council grant income) – this ratio indicates in days how quickly it takes the college to collect its outstanding debts. It is calculated as follows:

Debtors (Form 3, line 2(b)) divided by (total income (Form 1, line 6) less (total funding grants (Form 1, line 1) minus HEFCE franchised and associated providers (Form 1, line 1(b) ii)) less releases from deferred capital grants (non-LSC) (Form 1, line 4 (e)) less interest receivable (Form 1, line 5(b)), multiplied by 365 (days).

- Creditors days (non-pay expenditure) – this ratio indicates in days how quickly the college pays its debts. It is calculated as follows:

Trade creditors (Form 3, line 3(d)) divided by [total non-pay expenditure (Form 2A, line 17) less other interest payable (Form 2A, line 15) less depreciation (Form 2A, line 13) less interest on SSAP 24 provision (Form 2A, line 14)] multiplied by 365 (days).

Line 3: Ability to generate cash

135 This ratio indicates the college's ability to generate cash from its income. It is calculated as follows:

Net cash inflow/(outflow) from operating activities (Form 4, line 1) divided by income (calculated at Schedule 4, line 1).

Line 4: Indebtedness

136 The ratios under this heading indicate the level of debt at the college and the effect of the borrowing on the college's use of its income. The ratios are as follows.

- Debt charges as a percentage of income – this is calculated as follows:
Repayment of amounts borrowed (Form 4, line 6(c)) plus repayment of LEA deficit loan (Form 4, line 6(d)) plus interest paid (Form 4, line 2(b)) plus interest element of finance lease rental payments (Form 4, line 2(c)) divided by income (calculated at Schedule 4, line 1).
- Total borrowing as a percentage of income – this is calculated as follows:
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 4, line 1).
- Total borrowing as a percentage of reserves – this is calculated as follows:
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 total reserves (Form 3, line 14) less revaluation reserve (Form 3, line 10).

Line 5: Reserves

137 The ratios under this heading indicate the level of reserves at the college. The ratios are as follows.

- Operating surplus or deficit as a percentage of income – this is calculated as follows:
Surplus/(deficit) after tax, excluding asset transactions (Form 1, line 8(b)) divided by income (calculated at Schedule 4, line 1).
- Historical cost surplus or deficit as a percentage of income – this is calculated as follows:
Historical cost surplus/(deficit) (Form 1, line 13) divided by income (calculated at Schedule 4, line 1).
- Available reserves as a percentage of income – this is calculated as follows:
Income and expenditure account (Form 3, line 13) plus designated reserves (Form 3, line 12) divided by income (calculated at Schedule 4, line 1).
- Reserves as a percentage of income – this is calculated as follows:
Total reserves (Form 3, line 14) less revaluation reserve (Form 3, line 10) divided by income (calculated at Schedule 4, line 1).

Line 6: Spread of income

138 The ratios under this heading indicate the spread of income at the college. The ratios are as follows.

- Dependency on LSC income – this is calculated as follows:
LSC recurrent grant (Form 1, line 1(a)(i)) plus LSC 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 4, line 1).
- Dependency on European income – this is calculated as follows:
Grant income European funds ((Form 1, line 3(a)) plus (Form 1, line 3(a)(i)) divided by income (calculated at Schedule 4, line 1).
- Dependency on higher education income – this is calculated as follows:
Higher education income (Form 1, lines (1b)(i)) plus (1b)(ii)) plus (1b)(iv) plus tuition fees and charges (Form 1, line (2c)) divided by income (calculated at Schedule 4, line 1).
- Dependency on all other income – this is calculated as follows:
All other income not included in the above income ratios (Form 1, lines 2(a)(i), 2 (a)(ii), 2(b), 2(d)(i), 2(d)(ii), 2(e), 2(f), 2(g), 3(b), 4(a), 4(b), 4(c), 4(d), 4(f), 5(a), 5(b)) divided by income (calculated at Schedule 4, line 1).

Line 7: Income-generating activities

139 The ratios under this heading indicate the profitability of the college's income-generating activities. The ratios are as follows.

- Surplus or deficit on catering, residences and conferences – this is calculated as follows:
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).
- Surplus or deficit on other income-generating activities – this is calculated as follows:
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).
- Surplus or deficit on farming activities – this is calculated as follows:
Farming income (Form 1, line 4(b)) minus farming expenditure (Form 2A, line 9) plus (Form 2B, line 8).

Line 8: Analysis of pay expenditure

140 The ratios under this heading provide an analysis of the pay expenditure at the college. The ratios are as follows.

- Pay expenditure as a percentage of income (including contract tuition services) – this is calculated as follows:
Total pay before restructuring (Form 2B, line 12) divided by income (calculated at Schedule 4, line 1).

- Pay expenditure as a percentage of income (excluding contract tuition services) – this is calculated as follows:

Total pay before restructuring (Form 2B, line 12) minus contract tuition services (Form 2B, line 11) divided by total income (calculated at Schedule 4, line 1).

- Administrative costs proportion – this is calculated as follows:

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

Line 9: Other ratios

141 The following ratios have been calculated from the information in the finance record, which will be used by the LSC for benchmarking purposes.

- Average cost per teaching post (teaching departments) – this is calculated as follows:

Teaching departments; teaching staff (Form 2B, line 1(a)) divided by number of teaching staff (full-time equivalents (FTEs)) (input by college at Form 2B, line 17(a)(i)).

- Average cost per other staff (teaching departments) – this is calculated as follows:

Teaching departments: other staff (Form 2B, line 1(b)) divided by number of non-teaching staff (FTEs) (input by college at Form 2B, line 17(a)(ii)).

- Average cost per teaching support services staff – this is calculated as follows:

Teaching support services (Form 2B, line 2) divided by number of teaching support services staff (input by the college at Form 2B, line 17(b)).

- Average cost per other support services staff – this is calculated as follows:

Other support services (Form 2B, line 3) divided by number of other support service staff (input by college at Form 2B, line 17(c)).

- Average cost per administration and central services staff – this is calculated as follows:

Administration and central services (Form 2B, line 4) divided by number of administration and central services staff (input by the college at Form 2B, line 17(d)).

- Average cost per premises staff – this is calculated as follows:

Premises (Form 2B, line 5(a)) plus (Form 2B, line 5(b)) divided by number of premises staff (input by the college at Form 2B, line 17(e)).

- Average cost per other staff – this is calculated as follows:

Catering, residences and conferences (Form 2B, line 6) plus other income-generating activities (Form 2B, line 7) plus farming activities (Form 2B, line 8) plus franchised provision costs (Form 2B, line 9) plus

miscellaneous (Form 2B, line 10) divided by number of other staff (input by the college at Form 2B, line 17(f)).

- Capital expenditure expressed as a percentage of income – this is calculated as follows:

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

Section 4: Financial Benchmarking in Further Education Colleges

Introduction

142 Each year the LSC carries out a benchmarking exercise in respect of further education (FE) colleges. We have been considering for some time now how the LSC could improve its support to FE colleges, and one way that has been identified is through the improvement of this benchmarking exercise.

143 The LSC has, therefore, developed an improved benchmarking facility, and is hoping to trial the results later this year. The improvements that should be seen are:

- improved presentation of data, so that value comparisons as opposed to percentage comparisons are shown
- spurious accuracy is removed as only high level comparisons are shown
- family groups (for comparison purposes) have been redefined on the basis of size, college type and widening participation factors
- family groups may be amended with ease to show different comparisons
- financial data in respect of colleges in financial health group C is excluded from the comparison data, thereby only showing a comparison against good or acceptable levels of financial performance.

144 The first data that will be used in this exercise will be the financial results for the year ending 2003/04.

145 Colleges which participate in this exercise will receive a detailed report that shows clearly how their financial position compares against that of a nominal college of similar size and situation – based on financial data from colleges in financial health groups A and B.

146 In order to make this exercise work, some additional information will be required from colleges. Throughout the project the LSC has endeavoured to keep

additional information requirements to a minimum. We are fully aware of the need to minimise the level of information requests that are made on colleges, and so for this first year are making the completion of the additional schedule **optional**, albeit strongly recommended for colleges in financial health group C. We do, however, need a large number of colleges in all financial health groups to complete the additional return in order to test out this new facility and to provide robust benchmark comparisons. We would therefore hope that as many colleges as possible would be able to assist us in this exercise.

- 147 Feedback on the exercise will be sought from participating colleges, and it is expected, subject to the success or otherwise of the exercise, that future data requests will be fully integrated with the rest of the finance record and as such will be mandatory for 2004/05 onwards.
- 148 Given that this is the first year of the operation, it is expected that a number of development points will be identified. This may require further clarification to be given to colleges later this year.
- 149 If you have any questions concerning this exercise, please contact Chris Knight on 024 7682 3827.

Benchmarking – Supplementary Data Collection

Breakdown

- 150 In order for the new benchmarking facility to work, some additional data is required from colleges. This additional data takes the form of asking for a further breakdown of data already held within the finance record.

Precise figures or estimates

- 151 In many instances, colleges will have this information readily to hand. However, in some instances they will not. In order to progress this exercise it is therefore acceptable for colleges to estimate the breakdown proportions. This will obviously reduce the accuracy of the data in this first year. It is, however, expected that in future years the quality of data will improve.

Nil values

152 In many instances the breakdown is required in order to identify and exclude “unusual” arrangements from the analysis. Therefore, for many sections of this data collection, there will be no need for further breakdown. The figure already held in the finance record can be simply entered into the appropriate box within the analysis field, with the other boxes being given a “0” value.

Differences in accounting treatments

153 In some instances colleges may have described or treated income or expenditure in a manner that is different to that expected in this exercise. Some of the analyses required might therefore be difficult or impossible, as the income or expenditure being considered has been reported under a different heading. Such situations should be noted on the finance record submission.

Completion of the Schedules

Definitions

- 154 Core: the delivery of teaching by the college together with the support, administration, premises and catering functions.
- 155 Non-core and commercial activities: these include commercial use of sports halls, franchise and partnership arrangements, conferences and consultancy carried out by college staff. Also, activities where the college acts as a co-ordinator for a group, and receives income on behalf of the other members and remits it to them. Also where the college carries out activities outside their normal remit, for example providing careers advice generally in the community. It should also include income from aereals sited on college premises.
- 156 It will be noted that in some instances the requested analysis is repeated. This is in order to reflect the different accounting treatments that some colleges use – for example, some colleges include costs associated with training restaurants under teaching costs and others under miscellaneous income.

Total and figure to reconcile to

157 To ensure the reasonableness of the data used in the benchmarking exercise, each schedule has a total, figure to reconcile to and difference column. The total column is the total amount entered on the schedule itself. This should match the figure to reconcile to, which is the corresponding figure from Form 1, Form 2A,

Form 2B or Schedule 1 of the finance record. For example, the total for Schedule 5, line 1: LSC recurrent grant must equal Form 1 line a(i) LSC recurrent grant. If the amounts do not match, an error message will be displayed.

Schedule 5: Supplementary Income Data

Line 1: LSC recurrent grant

158 Form 1: Funding Council Grants, line 1a(i): Recurrent grant. Total recurrent grant should be analysed as follows.

- Learning delivered by other institutions under franchise agreements.
- Learning delivered by other partner institutions under, for example, managed facilities arrangements. These are arrangements whereby the partner often markets the courses, and provides the premises and equipment, but college staff deliver the learning. Precise arrangements may vary from case to case.
- Anticipated recovery by the LSC of funds relating to previous years.
- Learning delivered by college staff on premises arranged by the college. The premises can include those owned, rented or hired by the college, or made available to the college without charge.

Line 2: Analysis of line 1(d)

159 The income falling into category (d) above is broken down into the funding elements:

- core funding
- fee remission funding
- achievement income funding
- *disadvantage (widening participation) uplift funding
- *area costs uplift funding
- *specialist college uplift funding
- safety net funding – including cash protection and funding not repaid due to tolerance arrangements
- additional support funding.

* We appreciate that these funding elements are not readily available. The LSC is currently developing a report that can be used for future years. This year colleges will have to use their best judgement in determining a reasonable breakdown of funding not covered by the other headings.

Line 3: LSC work-based learning

160 Form 1: Funding Council Grants, line 1a(ii): Work-based learning. Where the college acts as a training provider, this item needs to be broken down into two elements.

- Work-based learning – tuition fees: these are the balance of fees received that remain after deductions for trainee allowances are paid.
- Work-based learning – other income: that part of the income received that is paid as allowances to trainees.

Line 4: Other HEFCE income

161 Form 1: Funding Council Grants, line 1b(iv): Other HEFCE income. The analysis should be as follows:

- student-related income: income for the delivery of higher education courses
- other income: income for development or promotion of courses, equipment, systems, premises improvements, student support or bursaries, or any other non-provision-related item.

Line 5: Tuition fees and education contracts – item (f): New Deal Income

162 Form 1: Tuition fees and education contracts, line 2(f): New Deal. The analysis should be as follows.

- New Deal – tuition fees: these are the balance of fees that remain after deductions for trainee allowances are paid.
- New Deal – other income: that part of the income received that is paid as allowances to trainees.

Line 6: Tuition fees and education contracts – item (g): Other

163 Form 1: Tuition fees and education contracts, line 2(g): Other. Prison education income is separated from income from other courses run for other authorities such as health authorities. Prison education mainly involves the provider in just the provision of teaching staff, and there are minimal material, equipment, support or premises costs. To include this in core teaching would distort the core figures.

- Prison education: income for the delivery of education to prisoners.
- Other: income from other sources.

Line 7: Catering, residences and conferences

164 Form 1: Other income, line 4(a): Catering residences and conferences. Catering is considered a part of the core college activity as it is a service provided by virtually every provider for the convenience of students and staff. Student

residences are not so common, and thus together with conferences are treated as a non-core function. Also, residences may be let out during vacations to earn additional revenue for the provider. It is therefore considered appropriate to treat all residence activities as non-core.

- Catering – income from refectories snack bars and so on, but not training restaurants.
- Income from residences and conferences.

Line 8: Other income-generating activities

165 Form 1: Other income, line 4(c): Other income-generating activities. This item is to be broken down to show income generated from consultancy and other commercial work carried out by the college. For a more comprehensive list of what comprises commercial activities see paragraph 155. This should be analysed as follows:

- consultancy and commercial income
- other income from other income-generating activities.

Line 9: Miscellaneous income

166 Form 1: Other income, line 4(f): Miscellaneous income (excluding investments). The analysis should be as follows.

- Teaching-related activities. This should include income from training restaurants and bars, hair and beauty salons, sales of teaching materials, stationery if the cost of sales was charged to teaching and field trip cost recoveries.
- Support and administration activities. This includes income generated from the sale of any item or service where the related costs have been treated as costs of the support and administration function. This can include printing, stationery and photocopying where the costs were treated as support or administration costs, telephone and postage income, library sales and fines, non-teaching-related student travel cost recoveries. Do not include the credit end of inter-departmental cost transfers, as these should be treated as reductions of costs, not income.
- Examination and registration cost recoveries. Do not include registration charges made to students on enrolling; these should be treated as tuition fee income.
- Income from crèche and/or nursery.
- Premises. This includes room hire, income from car parking.
- Commercial activities. This covers mobile phone aerials, the commercial use of sports halls and so on.

- VAT recovered, if recorded separately in the accounts.

Line 10: Additional item

167 An estimated breakdown of the college's operational income to premises type is required so that productivity of the college's own premises can be assessed. The breakdown will show the income generated in:

- owned premises
- rented premises, that is, long-term rented premises; and
- occasionally rented premises, that is, community or other premises

168 If the analysis is not easily available, an estimated percentage split will suffice, particularly in this first year.

169 Non-applicable income that should not be included are recurrent grants where the teaching is delivered by franchisees or partner organisations, prison education fees, residences and conferences, consultancy and other commercial income, release of capital grants and revaluation reserves, interest received.

170 The best approach to this section of the analysis is to identify the non-qualifying income streams as listed above, and then break down the remainder on an estimated basis.

Line 11: Total full-time equivalents

171 This item is broken down into three elements to show how many of the student FTEs had their teaching delivered within the core college, how many by franchisees and how many under partnership arrangements with other organisations, as follows:

- teaching delivered by franchisees
- teaching delivered under partnership arrangements
- the balance – teaching delivered by the core college.

Line 12: Ufi projects

172 Schedule 1: Other LSC Income, line 8: Ufi projects. This item is broken down into two elements – student-related income and project-related income. The latter is funding received for developing and managing Ufi delivery:

- income for teaching delivered (student-related income)
- non-teaching-related income (income for developing, administering and managing Ufi projects).

Line 13: European Social Fund co-financing

173 Schedule 1: Other LSC Income, line 6: ESF co-financing. This item is broken down into two elements – student-related income and project-related income. The latter is funding received for developing, carrying out and managing ESF co-financed projects which do not involve the delivery of teaching:

- income for teaching delivered (student-related income)
- non-teaching-related income (income for developing, carrying out, administering and managing ESF co-financing projects).

Line 14: Access support funds

174 Schedule 1: Other LSC Income, line 14(a): Access funds. Access fund receipts should be broken down into the following categories.

- Access funds distributed to learners directly. The learner may go on to use this income to pay nursery or crèche costs, to purchase food in the refectory or pay transport costs.
- Access funds not distributed to learners but credited directly as crèche income.
- Access funds not distributed to learners but credited directly as refectory income.
- Access funds not distributed to learners but credited directly as tuition fee income.
- Access funds not distributed to learners but credited directly as student travel income.
- Access funds retained by the provider to offset, in part, administration and management costs.

Schedule 6: Non-pay Expenditure

Line 1: Teaching departments

175 Form 2A, line 1: Teaching departments. The analysis should be as follows:

- revenue expenditure on teaching and demonstrating, including teaching materials and consumables, teaching equipment purchase and maintenance, printing and stationery, teaching transport and field trip costs
- any costs associated with teaching-related activities such as training restaurants, hairdressing and beauty salons, as the income from these should be credited to the teaching function
- any advertising, promotional and marketing expenditure charged to teaching departments
- any commercial non-core costs, including the commercial use of teaching facilities (for example sports halls), managing agency administration

expenditure, expenditure associated with consultancy projects, or other commercial activities charged to teaching departments

- prison contracts and partnerships.

Line 2: Teaching support services

176 Form 2A, line 2: Teaching support services. The analysis should be as follows:

- additional support non-staff costs
- other teaching support non-staff costs
- prison contracts and partnerships.

Line 3: Other support services

177 Form 2A, line 3: Other support services. The analysis should be as follows:

- nursery or crèche non-staff costs
- other support services non-staff costs excluding nursery or crèche.

Line 4: Administration and central services

178 Form 2A, line 4: Administration and central services. The analysis should be as follows:

- principalship and governance – include the travel and subsistence costs for the principal and governors
- finance – include *travel and subsistence costs of finance staff, bank charges, legal and audit fees and payroll services
- personnel – include *travel and subsistence costs of personnel staff, recruitment and the administration costs of using agency and part-time staff
- information technology – include *travel and subsistence costs of information technology staff, data transmission (telephone, intranet and Internet) for the whole college and administrative computing
- other – any other costs not included above.

*Where these costs are marginal, please ignore.

Line 5: Premises – Running costs

179 Form 2A: Premises, line 6(a): Running costs. The analysis should be as follows:

- residences
- other owned premises (including grounds)
- rented premises (usually for a period of more than a year; includes leased premises)
- community and occasional room hire premises (occasional and ad hoc).

180 Separating residences costs is important, breaking down other costs to premises type is desirable, and at the very least an estimate should be determined.

Line 6: Premises – Maintenance

181 Form 2A: Premises, line 6(b): Maintenance. The analysis should be as follows:

- residences
- other owned premises (including grounds)
- rented premises
- community and occasional room hire premises.

Line 7: Premises – Rents and leases

182 Form 2A: Premises, line 6(c): Rents and leases. The analysis should be as follows:

- rented premises
- community and occasional room hire premises.

Line 8: Catering, residences and conferences

183 Form 2A, line 7: Catering, residences and conferences. The analysis should be as follows:

- catering (including any subsidy if contracted out)
- residences and conferences.

Line 9: Other income-generating activities

184 Form 2A, line 8: Other income-generating activities (including any consultancy and commercial income within this heading). The analysis should be as follows:

- teaching-related activities
- support and administration activities
- premises-related activities
- commercial activities.

Line 10: Franchised provision costs

185 Form 2A, line 10: Franchised provision costs. The analysis should be as follows:

- franchise provision costs
- partnership provision costs.

Line 11: Miscellaneous

186 Form 2A, line 12: Miscellaneous. The analysis should be as follows:

- non-core and commercial – including research, trainee allowances where the provider acts as a managing agent, examination verification work carried out by provider staff
- non-operational core activity – including revaluation loss on equipment financed by grant
- teaching – including training restaurants, hair and beauty salons
- support and administration – including provision for bad debts
- premises.

Line 12: Premises area (m²)

187 This item is broken down into three categories so that the area of non-residence owned premises can be established. This will be the divisor in establishing the costs per square metre of owned premises.

- Residences: include only residences serviced by the college, not where the college may, for example, hold a head lease and sub-let to students.
- Premises which are owned and serviced by the college.
- Premises rented by the college.

Schedule 7: Pay Expenditure

Definitions

188 Pay expenditure includes basic payroll costs, overtime and other allowances and additions, employer's superannuation and national insurance contributions. It should include full-time and part-time staff, temporary staff, those on fixed-term contracts **and those hired from agencies**. Do not include reimbursement of expenses paid via the payroll – these should be treated as non-salary costs.

Line 1: Teaching departments: Teaching staff

189 Form 2B: Teaching departments, line 1(a): Teaching staff. The analysis should be as follows.

- Teaching, including promoted teaching staff, for example heads of schools or departments, programme leaders and curriculum managers, staff responsible for the overall academic management of the college, likely to be management of the heads of schools. If these are members of the senior management team, then apportion an appropriate part of their costs to the following category.
- Central support and administration – the portion of the college's academic managers' time applied to senior management team activities.
- Prison contracts and partnerships and any other commercial activities.

Line 2: Teaching support services

190 Form 2B, line 2: Teaching support services. The analysis should be as follows.

- 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 or interpreters.
- Other teaching support staff.
- Prison contracts and partnerships and any other commercial activities.

Line 3: Other support services

191 Form 2B, line 3: Other support services. The analysis should be as follows:

- nursery or crèche staff
- any other support services.

Line 4: Administration and central services

192 Form 2B, line 4: Administration and central services. The analysis should be as follows:

- principalship and governance – include the pay costs for the principalship
- finance and legal – include the pay costs for finance and legal staff, including any payroll costs
- personnel – include the pay costs for personnel staff
- information technology – include the pay costs for information technology staff, including management information systems and data input staff
- other – any other costs not included in the above headings.

Line 4: Premises – Running costs

193 Form 2B: Premises, line 5(a): Running costs. The analysis should be as follows:

- residences
- other owned premises (including grounds)
- rented premises
- community and occasional room hire premises.

Line 5: Premises – Maintenance

194 Form 2B: Premises, line 5(b): Maintenance. The analysis should be as follows:

- residences
- other owned premises (including grounds)
- rented premises

- community and occasional room hire premises.

Line 6: Catering, residences and conferences

195 Form 2B, line 6: Catering, residences and conferences. The analysis should be as follows:

- catering (including any subsidy if contracted out)
- residences and conferences.

Line 7: Other income-generating activities

196 Form 2B, line 7: Other income-generating activities. The analysis should be as follows:

- teaching-related activities
- support and administration activities
- premises-related activities
- commercial activities.

Line 8: Miscellaneous

197 Form 2B, line 10: Miscellaneous. The analysis should be as follows:

- non-core or commercial – including examination verification work and the management and administration of any in-house managing agency
- teaching – including training restaurants, hair and beauty salons
- support and administration
- premises.

Section 5: Miscellaneous

Error messages

198 There are a number of error messages contained within the finance record spreadsheet.

Form 3: Balance sheet

- “Balance sheet does not balance” – this matches line 8 (Net assets) to line 15 (Total);
- “WARNING, total of inherited assets does not equal balance on revaluation reserve” – this is linked to the question on revalued assets on Form 4. If a college has not revalued its assets since incorporation, the value of its inherited assets should equal the balance on the revaluation reserve.

Form 4: Cash flow statement

- Has the college revalued its assets – “Please insert Y or N”;
- “Please assign college to health group A, B or C”.

Validation Checks

199 In addition to the error messages there are a number of validation checks contained within the finance record spreadsheet. A list of the validation checks is provided at Annex C. The validation checks are displayed when each worksheet is saved.

Potential problems

200 A number of issues caused problems to colleges when completing last year’s finance record. The most common problems were:

- balance sheet or cash flow does not balance
- saving data to disk; and
- printing forms.

Solutions to these problems are suggested below.

Balance sheet does not balance

201 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

202 If colleges have any problems with the operation of the workbook they should contact their local LSC. Colleges will be able to access details of their local LSC office from the LSC website at www.lsc.gov.uk/localview. Select the relevant local office from the list provided. Select “about the LSC” to display the contact details.

Downloading the finance record

203 The workbook for the finance record will be available on the LSC website (www.lsc.gov.uk). Colleges will be able to download the workbook in Excel 5.0/95.

Website

- 204 To download the workbook from the LSC website, go to www.lsc.gov.uk. Click on the link Documents, click on the link Circulars and then click on 2004 and scroll down to the circular entitled *04/xx Finance: Accounts Direction for Further Education Colleges for 2003/04*. Colleges will be able to download the spreadsheet as an Excel 5.0/95 workbook (please save the workbook in the same format).
- 205 A signed paper copy of the finance record should be submitted, with the audited financial statements, to the local LSC by 31 January 2005. **In addition to this, please return a copy of the finance record via the LSC's web portal by 31 January 2005. The instructions for using the web portal are given in Annex A.**
- 206 **Where the college has been classified as a Pilot or Pathfinder college for the audit of its individualised learner record (ILR), then the submission date for the above documents is 31 December 2004.**

Form layout

- 207 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.
- 208 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

- 209 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.

210 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

211 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.

212 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.

213 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.

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

Annex A

Web Portal – Financial Statements and Finance Record Return 2004

Data collection system

The website address is <http://providers.lsc.gov.uk/dcs>.

Step-by-step guide for further education colleges

- 1 Log on to provider website (see website address above). Local LSCs are responsible for setting up the collection for each of their colleges.
- 2 Sign in (see super-user at college for new user set-up).
- 3 Select college (type in UPIN).

- 4 **Select collection type (FEFINS) by clicking on arrow next to collection type box, scroll down and select FEFINS.**
- 5 Click on “provider search” button.
- 6 Select college from list and click on UPIN (red text on left hand side).
- 7 Select **PBFINS_0304** from list.
- 8 Create a new submission by clicking on “create” button. A message will appear “Creating a new transmission will replace the current transmission, do you wish to continue?”
- 9 Click “OK”.
- 10 Click on “browse” button to select file that you want to submit (having saved it on floppy disk or on your network). For the upload to be successful, the filename format must be correct and the validation checks must be met. See below for details of filename format and for validation rules.
- 11 Click on “finish”.
- 12 Alternatively, if the spreadsheet hasn’t yet been completed, click on the “get template” button and you can download it from here.
- 13 The template is also available on the LSC website at www.lsc.gov.uk, select Partners, Policy and Development, FE Colleges Finance, Sector Accounting Policies, Circulars, 04/XX Accounts Direction to Further Education Colleges for 2003/04 and then scroll down until you see the links in red typeface, select Supplement B: Finance Record. If you download it from here, be sure to change the filename to the correct format.
- 14 Guidance on how to complete the finance record can be found in Section 3 of this supplement.
- 15 Please note that several validation checks have been added to the template, on most of the worksheets. Details of the validation checks can be found in Annex C of this supplement.

Annex B

File Format

The filename **must** be in the following format in order for it to be transmitted via the web portal:

FRxxxxxyyyyyyyzzz.xls

where

xxxxxx (UPIN)

yyyyyy(FEFCODE(zero filled where less than 7 characters))

zzz(transmission number (001 to 999)).xls

For example, for Abingdon and Witney College, the filename for the finance record spreadsheet would be:

- FR112314ABING00001.XLS
- FR is the standard prefix
- 112314 is the college's UPIN
- ABING00 is the college's FEFC code (which has been zero filled to seven characters)
- 001 is the transmission number.

Annex C

Validation Checks

- 1 The following validation checks have been added to the finance record workbook.
- 2 Whenever data is saved or another worksheet is selected, for example if the save button is
- 3 clicked when Form 1 is displayed, the validation checks given below for Form 1 will be
- 4 carried out. If any of the validation rules are breached, a pop-up window with the corresponding warning message will be displayed. The warning message will include two options: CANCEL or OK. If the OK option is chosen, the user will be taken into the new worksheet selected. If the CANCEL option is chosen, the current worksheet will remain open. All changes will be saved irrespective of whether any of the rules are breached.

Worksheet or field name	Cell ref.	Validation	Warning message displayed
Details			

College code	D5	Must not be blank	College code must be entered
College name	D6	Must not be blank	College name must be entered
College payment code	D7	Must not be blank	College payment code must be entered
Form 1			
Line 1(a)(i): LSC recurrent grant	E11	Must not be blank or zero	1(a)(i) LSC recurrent grant must not be blank or zero
Line 6: Total income	F49	Must not be zero	Line 6: Total income must not be zero
Form 2A			
Line 17: Total non-pay expenditure	E32	Must not be zero	Line 17: Total non-pay expenditure must not be zero
Form 2B			
Line 12: Total pay expenditure before restructuring	E24	Must not be zero	Line 12: Total pay expenditure before restructuring must not be zero
Line 14: Total pay expenditure after restructuring	E27	Must not be zero	Line 14: Total pay expenditure after restructuring must not be zero
Line 16: Total expenditure	E29	Must not be zero	Line 16: Total expenditure must not be zero
Line 17(g): Total	E42	Must be greater than zero	Line 17(g): Must be greater than zero

Worksheet or field name	Cell ref.	Validation	Warning message displayed
Form 3			
Error message: Balance sheet does not balance	B62	Must be blank	The balance sheet does not balance
Error message: The total inherited assets does not equal	B63	Must be blank	The total inherited assets does not equal the balance

balance on the revaluation reserve			on the revaluation reserve
Form 4			
Line 9: has the college revalued its assets – please insert Y or N	E51	Must be either “Y”, “y”, “n” or “N”	The answer to question 9 must be Y or N
Line 10: the most appropriate financial health group for the college based on the financial statements ...	E54	Must be either “A”, “B”, “C” or “a”, “b” or “c”	The answer to question 10 must be either A, B or C
Schedule 1			
Line 13: Total	E23	Must not be zero	Line 13 Total must not be zero
Line 15: Total number of subsidiaries	E37	Must not be blank, but can be zero or higher	Line 15 Total number of subsidiaries must be completed, and must be zero or higher
Schedule 2			
Line 1: Number of senior postholders including the principal	E11	Must not be blank	Line 1: Number of senior postholders including the principal for year ended 31 July 2004 must not be blank
Line 1(a): Principal's salary	E14	Must not be blank	Line 1(a): Principal's salary for the year ended 31 July 2004 must not be blank
Line 1(b): Principal's benefits in kind	E15	Must not be blank	Line 1(b): Principal's benefits in kind for year ended 31 July 2004 must not be blank
Worksheet or field name	Cell ref	Validation	Warning message displayed
Line 1(c): Principal's pension contribution	E16	Must not be blank	Line 1(c): Principal's pension contribution for year ended 31 July 2004 must not be blank

Line 1(d): Senior postholders' salaries	E17	Must not be blank	Line 1(d): Senior postholders' salaries for year ended 31 July 2004 must not be blank
Line 1(e): Senior postholders' benefits In kind	E18	Must not be blank	Line 1(e): Senior postholders' benefits in kind for the year ended 31 July 2004 must not be blank
Line 1(f): Senior postholders' pension contributions	E19	Must not be blank	Line 1(f): Senior postholders' pension contribution for the year ended 31 July 2004 must not be blank
Line 1: Number of senior postholders including the principal	F11	Must not be blank	Line 1: Number of senior postholders including the principal for year ended 31 July 2003 must not be blank
Line 1(a): Principal's salary	F14	Must not be blank	Line 1(a): Principal's salary for the year ended 31 July 2003 must not be blank
Line 1(b): Principal's benefits in kind	F15	Must not be blank	Line 1(b): Principal's benefits in kind for year ended 31 July 2003 must not be blank
Line 1(c): Principal's pension contribution	F16	Must not be blank	Line 1(c): Principal's pension contribution for year the ended 31 July 2003 must not be blank
Line 1(d): Senior postholders' salaries	F17	Must not be blank	Line 1(d): Senior postholders' salaries for year ended 31 July 2003 must not be blank
Line 1(e): Senior postholders' benefits in kind	F18	Must not be blank	Line 1(e): Senior postholders' benefits in kind for the year ended 31 July 2003 must not be blank
Line 1(f): Senior postholders' pension contributions	F19	Must not be blank	Line 1(f): Senior postholders' pension contributions for the year ended 31 July 2003 must not be blank
Line 2(a): Principal's pay award (per cent)	E24	Must not be blank	Line 2(a): Principal's pay award must not be blank

Worksheet or field name	Cell ref	Validation	Warning message displayed
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Line 2(b): Senior postholders' pay award (per cent)	E25	Must not be blank	Line 2(b): Senior postholders' pay award must not be blank
Line 2(c): Higher paid staff pay award (per cent)	E26	Must not be blank	Line 2(c): Higher paid staff pay award must not be blank
Line 2(d): Other staff (per cent)	E27	Must not be blank	Line 2(d): Other staff pay award must not be blank
Line 5: Name of financial statements auditors	D43	Must not be blank	Line 5: Name of financial statements auditors must not be blank
Line 6: Name of funding auditors	D44	Must not be blank	Line 6: Name of funding auditors must not be blank
Line 7: Name of internal auditors	D45	Must not be blank	Line 7: Name of internal auditors must not be blank
Line 8(b): Net pension asset/(liability)	E51	Must not be blank	Line 8(b): Net pension asset/(liability) must not be blank
Schedule 4			
Line 1: Income used in ratio analysis	C12	Must not be zero	Line 1: Income used in ratio analysis must not be zero or blank