Supplement to

Circular

Supplement A to Circular 00/18

Financial Returns 1999–2003: Notes and Guidance

Contents

paragraph

Commentary to the Forecast

Introduction

1 The Council asks colleges to provide a commentary to the forecast, in addition to the strategic plan textual update, that brings out the following points:

- a statement of the key assumptions used in the forecast
- the college's financial objectives as set out in the strategic plan and a commentary on achievement of those objectives
- a sensitivity analysis of the key assumptions used in the forecast
- details of contingency plans to address those sensitivities
- the college's self-assessment of its financial health and an explanation of any variance from the computed finance health group
- major movements between forecast periods for income and expenditure account and balance sheet headings
- major variances between the latest out-turn estimate for the current year and the original budget; and
- the contribution made by different areas of activity.

2 A checklist is provided in annex A to this supplement on issues to consider when completing the financial forecasts and monitoring. The checklist is for colleges' own use and does not need to be returned to the Further Education Funding Council.

Assumptions

3 Suggested forecasting assumptions can be found in annex A to Circular 00/18.

Financial Objectives

4 In order to assist the college in achieving its strategic plan the governing body should set financial objectives or targets. The purpose of setting such objectives is to establish limits for the college to operate within. Governors may wish to set targets for areas such as solvency, reserves and dependency on certain types of income. Examples of financial objectives are included in annex B to this supplement. When the Council's regional finance directors review colleges' financial forecasts they consider if a college set appropriate targets, particularly for solvency. In July 1999, only 72% of colleges set such a target.

Sensitivity Analysis

5 The information in the financial forecast should reflect the financial effect of the planned levels of activity in a college's strategic plan. However, these plans are based on assumptions containing some degree of uncertainty. The sensitivity analysis is intended to show the financial implications if more unfavourable conditions apply. Therefore, we ask colleges to examine critically the underlying key assumptions and to realistically assess the effect of failure to meet their plans.

6 Some forecasting assumptions have critical implications for a college's strategic plan and the consequences of alternative outcomes can be complex. For example, a major project that would not proceed without Council support, could affect a college's growth or the number of staff employed and lead to a very different outcome from the original financial forecast. **Where a financial forecast contains critical assumptions of this nature, we advise colleges to complete a second forecast based on the alternative scenario and share it with the Council.** Where a college considers that different outcomes have an impact on its financial viability, we consider it essential to produce an alternative financial forecast that reflects the impact of those changes.

7 Colleges should identify actions to mitigate the consequences of the identified sensitivities. Colleges should notify the Council's regional team where these actions mean a rationalisation of provision in any programme area or locality.

8 An example of a sensitivity analysis is set out in annex C to this supplement. To appreciate the implications of sensitivities it is important that they are costed.

9 Colleges should address the risks identified in a college's strategic plan in the sensitivity analysis and conversely address the financial sensitivities in the risk analysis.

10 When reviewing colleges' financial forecasts, the Council's regional finance directors consider the adequacy of sensitivity analysis and contingency planning carried out by colleges.

11 In July 1999 only 80% of colleges had prepared an adequate sensitivity analysis, and a lower proportion had adequate contingency plans.

Financial Health Self-assessment

12 Colleges are asked to provide a self-assessment of their financial health. The guidance on self-assessment is based upon the following principles:

- the prime responsibility for a college's financial health rests with the college
- self-assessment provides the impetus to improve a college's financial health and is most effective when it is structured, rigorous and continual
- both the college's self-assessment and the Council's assessment of the college's financial health should focus on the same guidelines, at the forefront of which is the robustness of the college's finances, in particular its solvency, the likely risks in the college's environment and the adequacy of the college's contingency plans.

13 When the Council assesses which financial health group is appropriate for a college's financial health it considers the guidelines for each group, as set out below, the college's self-assessment and a computed health group. The calculations for the computed health group are set out in paragraph 21.

14 The computed health group is shown on form 5 of the financial forecast. Where colleges do not feel that this gives a true representation of their financial health, they need to explain the underlying reasons in the commentary.

15 Colleges should insert the college's assessment of its health group on form 5 stating which of the following groups most closely identifies their financial position and supporting the statement by the key analysis and reasons that justify the assessment. Such assessments concentrate on the overall strength of the balance sheet, the cashflow forecast and the likelihood of achieving the college's projection of income and expenditure. The board of governors should confirm the assessment. The definitions of these groups are guidelines and not criteria. In order to further assist colleges the explanations have been extended.

Group A

16 Colleges that appear to have sufficiently robust finances to implement their strategic plan and to deal with the circumstances most likely to occur during the planning period. These colleges will normally have:

- a positive cashflow from operations each year
- more than 25 cash days in hand
- a current ratio above 1.5:1
- a positive balance on their general reserve (income and expenditure account)
- an operating surplus greater than 3% of income.

17 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

18 Colleges that show signs of financial weakness that might limit their ability to implement their strategic plan if they encounter adverse circumstances during the planning period. Colleges in this group are likely to have weaker solvency than those in group A but should still have:

- 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)
- net current assets
- operating surplus at break even.

19 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 these 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

20 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 revenue purposes. Colleges in this position are likely to have:

- an accumulated deficit on their general reserve account
- net current liabilities (current ratio less than 1.0:1) in one or more years
- annual borrowing repayment and debt servicing higher than 7% of income
- a cash outflow from operations in one or more years
- an operating deficit
- less than 15 days cash in hand.

Computed Health Group

21 If a college has a current ratio of less than 1.0:1 in either or both of the first two years, then it is automatically placed in group C in computing the health group, as the emphasis is put on solvency. The scoring is based on the following ratios:

- cash days
- current ratio
- cash generation
- general reserves.

22 These ratios are taken from the forecast given by the colleges and then allocated a score. The sum total of each year of these scores is then weighted in favour of the first two years and the group is allocated depending on the final score achieved. A higher weighting is given to earlier years as they can be forecast with a greater degree of accuracy than later years. The table below sets out the limits for the scoring and shows how these are weighted.

Ratio	*College return*	*Weighting*
Cash days	> 25	6
	> 15	4
	> 0	2
	< = 0	0
Current ratio (first two years)	> 1.5	6
	> = 1	4
	< 1	-100
Current ratio (third and fourth years)	> 1.5	6
	> = 1	4
	< 1	0
Cash generation	> 0	6
	> -0.01	4
	> -0.02	2
	< = -0.02	0
General reserves	> 5%	6
	> 2%	4
	> 0%	2
	< = 0%	0

23 The weightings are totalled for each year. The yearly totals are then themselves weighted on the following basis:

- first year's totals (x 3)
- second year's totals (x 2)
- third and fourth years' totals (no additional weighting).

24 When the final score is known the group is then allocated.

Score	*Group*
>140	A
> 14	B
All others	C

Example

Ratio	*1999*		*1999-00*		*2000-01*		*2001-02*		*Total weighting*
	Return	*Weight*	*Return*	*Weight*	*Return*	*Weight*	*Return*	*Weight*	
Current ratio	1.0	4	1.2	4	1.3	4	1.3	4	
Cash days	8	2	9	2	13	2	13	2	
Cash generation	0.14	4	0.08	4	0.1	4	0.1	4	
General reserves	10	6	20	6	20	6	24	6	
Total weighting		16		16		16		16	
									(3 x 16) + (2 x 16)+ 16 + 16 = 112

25 In this example, the college achieved a total score of 112. As this is greater than the minimum of the B scale, namely 15, and less than the minimum of the A scale, namely 141, we can assess this college as falling in group B. Please note the computed health group is only used as a guide to determining a college's health group.

26 During the autumn of 2000, the Council's regional finance directors will write to college principals indicating whether they agree with a college's financial health self-assessment. Principals should share this letter with the board of governors.

Changes to Format of the Forecast

27 Following the consultation in 1999 with colleges on strategic planning and guidance, the Council amended the format of the financial forecast disk. The Council will make the pro formas available on the Council's website (www.fefc.ac.uk) as Excel workbooks. The Council will not send disks to colleges, unless specifically requested. A separate application is not needed to access the pro formas.

28 The pro formas are available in two formats: one with the forms and ratios, the other with the detailed schedules, as currently, for those colleges which find more detail helpful. The Council has reduced the information requested in years two and three of the abbreviated version of the financial forecast. Colleges may return either variation to the Council. Please return the disk to the Coventry offices as previously. **(Please note some colleges may be asked to complete the full version of the financial forecast – these colleges will be notified by their regional finance director by 31 May 2000.)**

29 Following consultation with the college finance directors' group the Council has amended the allocation of activities to income and expenditure account headings to enable improved bench marking data to be prepared.

30 The guidance in this supplement is based on the full disk. Colleges completing the abbreviated disk must make manual entries to the forms, following the principles set out below.

Form 1 income

31 Line 1(a) is renamed participation allocation.

32 Line 1(c), transfer of training and enterprise council (TEC) income as part of the Learning and Skills Council (LSC) allocation is a new line. This allows the transfer of funds to be recognised.

33 Line 4 (a), tuition fees and charges, EU is split into i) UK, ii) Other EU. This matches the split required in colleges' financial statements.

34 New line 5(a)(i), repayment of European funding allows colleges to input a negative figure representing repayment of European funds.

35 Line 11, miscellaneous income (including investments) will no longer include profits on disposals of fixed assets. Any profit or loss on disposals is to be included in new line 17, surplus/(deficit) on asset disposals. This is so the true underlying operating position is disclosed at line 16.

36 New line 17, surplus/(deficit) on asset disposals.

37 New line 18, surplus/(deficit) including asset transactions (after tax).

38 Former line 17, transfer (to)/from revaluation reserves is now line 19.

39 Former line 18, historic cost surplus/(deficit) is now line 20.

40 Former lines 19 to 22 have been renumbered.

Form 2A non-pay expenditure

41 Former line 2, teaching support services has been renamed student support services.

42 For the abbreviated version please input figures in lines 4, 6a to 6c, 8 to 12 and 14 to 18 for years ending 2002 and 2003 to enable ratios to be calculated. Please note:- total non-pay expenditure is not automatically calculated for the years ending 2002 and 2003 in the abbreviated version, please ensure the total figure is manually input at line 18 for these years.

43 Line 13, miscellaneous, will exclude any loss incurred on disposing of fixed assets which will now be included in form 1 line 17, surplus /(deficit) on asset disposals.

44 Line 14, depreciation, includes total depreciation charges and is no longer split.

45 Former line 19, contracted tuition services, is moved from form 2A and now included in form 2B, pay expenditure, line 13. This gives better comparators between colleges on the real cost of staff.

46 Total non-pay expenditure is to be included in line 18 for all years.

47 Former line 20, premises area (m^2), is renumbered line 19.

Form 2B pay expenditure

48 Line 2, teaching support services, is renamed student support services.

49 New line 13, contracted tuition services (moved from form 2A). Former lines 13 to 19 are renumbered.

50 Lines 19 and 20, number of teaching and non-teaching staff, will exclude contract staff.

51 For the abbreviated version please input figures in line 1a, 1b, 2 to 4, 6a, 6b, 8 to 11, 13 and 14 for the years ending 2002 and 2003 to enable ratios to be calculated. Please note:- total pay expenditure before restructuring is not automatically calculated in the abbreviated version for the years ending 2002 and 2003, please ensure the total figure is manually input at line 14 for these years.

Form 3 balance sheet

52 Deferred capital grants are moved from line 7, total provisions, to line 9.

53 Former lines 9 to 13 are renumbered. This matches the format proposed in the draft statement of recommended practice for further and higher education.

54 New line 15, total (including deferred capital grants).

Form 5 principal's certificate

55 New line 13, has the college revalued its assets?, the principal is asked to confirm yes or no. If the college answers no but the value of inherited assets does not equal the revaluation reserve, an error message will then show on form 3.

56 New line 14, computed health group. This automatically calculates the college's health group. Colleges are to insert the most appropriate health group in their opinion and comment if discrepancies arise between the two.

57 New line 17, risk management plan, the principal is asked to confirm that the board of governors has approved the college's risk management plan.

58 The principal is also asked this year to confirm that the key ratios in the financial forecast were reviewed in accordance with the method agreed by the college's board of governors.

Schedule 1A Council funding allocation

59 Line 4, is renamed adjustments to baseline. This includes additional units for additional 16–18 year olds in 1999-2000, units removed for childcare support (now included in schedule 1b) and additional units for widening participation.

60 New line 9, curriculum 2000 units.

61 New line 10, university for industry units.

62 Former lines 9, 10, 11, 12, 13, 14 and 15 are renumbered.

63 Line 15, is renamed adjustment for recovery of funds.

64 New line 16, additional in year allocation, is split into a) number of units and b) funding.

65 This schedule is revised to include memorandum lines including franchised provision and the number of full-time equivalent students (FTEs). Line 19 forecast student FTEs is split into a) 16-18 full time and b) other. Line 20, franchised provision, colleges are asked to input franchise provision units in this line. This will enable further ratios to be calculated on the contribution from franchise provision and the costs per FTE.

Schedule 1B

66 Line 1 is renamed learner support funds and is split into a) access fund, b) childcare support and c) residential bursaries. Former lines 1, 2 and 3 are deleted.

67 Line 4, former section 11 grant is moved to line 2 and renamed ethnic minority student achievement grant (section 11).

68 Former line 5, basic skills schools, is renumbered line 3.

69 New line 4, individual learning accounts.

70 Former lines 7, 8, 9, 10, 11, 12, 13 and 14 are renumbered.

71 Former line 15, is renumbered and renamed childcare places (learner support fund).

72 Former lines 16, 17, 18 and 19 are renumbered.

73 Line 18 is renamed total.

74 Former line 18, IT for students with disabilities has been removed.

75 New line 19, college spend on information technology (from any source). This is split into i) revenue and ii) capital.

76 New line 20, total college spend on information and learning technology (ILT).

Schedule 6

77 Line 1 is renamed FEFC/LSC – recurrent funding.

78 Line 2, is renamed FEFC/LSC capital grants.

Schedule 14B, ratio analysis

79 New line 1 h) surplus/(deficit) on franchised provision.

80 New line 2 a) pay expenditure as a percentage of income (including contract tuition services).

81 New line 3 d) staff costs per student (FTEs) is split into i) teaching 16-18 and other and ii) non-teaching 16-18 and other.

82 New line 3 e) number of students (FTEs) per teaching staff (FTEs) is split into 16-18 and other.

83 New line 3 f) total cost per student (FTEs) is split into 16-18 and other.

Changes to Format of the Finance Record

84 The format used for the December 2000 finance record, as set out in Circular 99/25 is amended as set out below:

Form 1

85 Former line 1a) main allocation is renamed participation allocation.

86 Former line 1b) other FEFC income is renamed other FEFC/LSC income.

87 Line 4 a) tuition fees and charges EU is split into i) UK and ii) other EU.

88 New line 5a)i), repayment of European funding.

89 New line 17, surplus/(deficit) on assets disposals.

90 New line 18, surplus /(deficit) including asset transactions (after tax).

Form 2A

91 Former line 2, teaching support services is renamed student support services.

92 Line 13, miscellaneous, will exclude any loss incurred on disposing of fixed assets. This will now be included in form 1 line 17, surplus/(deficit) on assets disposals.

93 Line 14, depreciation includes total depreciation and is no longer split.

94 Former line 19, contracted tuition services, is moved from form 2A and is now included in form 2B, pay expenditure at line 13.

Form 2B pay expenditure

95 Line 2, teaching support services, is renamed student support services.

96 New line 13, contracted tuition services (moved from form 2A). Former lines 13 to 19 are renumbered.

Form 3 balance sheet

97 Deferred capital grants are moved from line 7, total provisions, to line 9. Former lines 9 to 13 are renumbered. This matches the format proposed in the draft statement of recommended practice for further and higher education.

98 New line 15, total (including deferred capital grants).

Schedule 1

99 Please refer to changes to the schedule 1B in the financial forecast for changes to this schedule in the finance record.

Changes to Format of the Mid-year Update

100 Please refer to changes to the finance record above for changes to the February 2001 mid-year update.

Guidance on Completing the Forecast

Introduction

101 This section provides guidance on accounting policies and on completing the financial forecast schedules and forms in the detailed version of the disk. Section 4 of this supplement sets out guidance on completing the financial Excel workbook. Also refer to Circular 99/23 on sector accounting policies.

102 Prepare all figures on the accruals basis of accounting unless otherwise stated. Show all income and expenditure gross. Where boxes are shaded on the forms the software automatically calculates their value.

Financial Forecasts

103 The financial forecasts are used for a number of purposes. The Council anticipates that colleges use the forecast for internal planning and monitoring purposes. The Council's regional teams review each forecast alongside the strategic plan, accommodation strategy and other information. This is to form an opinion on the financial health of the college and to determine if there are issues to raise with the college. The team also considers whether they agree with the college's self-assessment of its financial health.

104 The Council aggregates all financial forecasts to give a summarised view of the financial health of the sector. This summary is reported to Council each December and is used to provide a benchmark for colleges in the sector. They also provide a basis for advice to the Secretary of State for education and employment.

105 It is important that a college's forecast presents a realistic view of its position so that the Council gets a realistic view of the financial health of the sector. The Council also uses the aggregate data to respond to ad hoc queries from colleges and the department.

Details

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

Form 1 Income

107 The forecast requires colleges to analyse income sources and movements on these income sources. Income is split into FEFC/LSC, education contracts, tuition fees, other grants, research grants, other income generating activities, catering and residence, farming and other income to determine the dependency of a college on particular sources of income.

108 Income from catering, residences, farming activities and other subsidiary activities are associated with the cost to see if these activities are subsidised or contribute to fixed costs. The contribution is calculated and recorded on schedule 14B.

Line 1, FEFC/LSC income

109 This will include:

- allocation, including growth allocation from schedule 1A
- other FEFC income, this includes income from other initiatives such as summer schools, university for industry and the further education (FE) standards fund from schedule 1B
- transfer of TEC income from 2001-02 onwards. This includes a college's estimate of future income for activities currently funded by training and enterprise councils.

Line 2, release of capital grants

110 This line is calculated automatically by the application from schedule 2 line 5(h). It matches the release from deferred capital grants held on the balance sheet to the corresponding expenditure (depreciation of assets funded by capital grants). This covers capital grants from the Council and other bodies.

111 Treat funds identified for capital purposes as deferred capital grants and credit them to a deferred capital grant account on the balance sheet. Release the allocation to the income and expenditure

account in accordance with the *Statement of Standard Accounting Practice (SSAP) 4 Accounting for Government Grants,* to reflect the revenue charges arising from the capital expenditure which the allocation supports. Do this via entries in schedule 2 to the forecast. Funds identified for capital purposes include sums set aside from the college's main allocation, other capital support, Hunter 1(a) and 1(b) allocations, and retrospective support for capital projects approved by the Department for Education and Employment (DfEE) before 1 April 1993. Also, treat capital payments from other funds as deferred capital grant.

Line 3, education contracts

112 This will include:

a. all local education authority (LEA) income including all non-schedule 2;

b. all income from TECs including income from youth training (YT), employment training (ET), income from youth credits and trainee allowances;

c. higher education (HE) income:

   i. Higher Education Funding Council for England (HEFCE) – include income received direct from the HEFCE for prescribed higher education including that transferred from FEFC

   ii. income to the college from higher education institutions for the provision of HE courses;

d. new deal income;

e. other – include income for courses run for other authorities such as health authorities, and the Home Office (prison education).

Line 4, tuition fees and charges

113 This will include:

a. EU

   i. United Kingdom (UK);

   ii. Other EU;

b. non-EU – tuition fees and charges received from students from outside the EU;

c. HE – tuition fees and charges received for all courses of prescribed HE;

d. employer-led provision:

   i. dedicated

   ii. other.

114 To assist the Council to monitor the achievement of targets for employer contributions, we ask colleges to record separately tuition fees for employer-led provision and, as a subset of this, fees for dedicated employer provision. Include in these headings the fees associated with students recorded on the individualised student record in any of the following fields:

- S16 major source of tuition fees as employer code (3)
- Q03 mode of attendance as block release (04), part-time released (05) or dedicated provision (12) (withdrawn as of 2000-2001)
- Q09 major source of tuition fees as employer code (3)
- Q13 franchised out arrangements codes (22) and (23)
- Q35 employer role as employed and released by the employer to study a vocational qualification relevant to that employer (1), attending dedicated employer provision (3) (from 2000-2001).

Line 5, grant income

115 This will include:

a. European funds – revenue grant income from European structural funds. Include the release of European Regional Development Fund (ERDF) capital grants in line 2. 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;

a.i) repayment of funds – this will include repayments of European funding as a negative figure. Disclose the type of European funding, for example European Social Fund (ESF), in the commentary;

b. other funds – this will include income from the post-16 partnership funds and the skills development fund.

116 Specify the source(s) of the grant income, for example ESF objective 3, in the commentary.

Line 6, research grants and contracts

117 All income in respect of research carried out by the college.

Line 7, other income-generating activities

118 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.

Line 8, catering and residence operations

119 Income from catering and residences operations. Enter surpluses paid to the college from contracted out services here.

Line 9, farming activities

120 Income from farm operations.

Line 10, income from payments under section 6(5) of the *Further and Higher Education Act 1992* (the Act)

121 Income from external institutions sponsored by the college.

Line 11, miscellaneous income (including investments)

122 This will include:

- investment income – include income earned on restricted endowments to the extent that the income is spent on capital or revenue items and any other investment income earned. Do not include interest that will be shown at line 13
- examination fees – include those for professional examinations
- other income – include all other sources of income not shown elsewhere and income from training restaurants and bars, beauty treatments, student stationery sales, income from educational visits, value added tax and rates recovered, conference income, nursery, gym, sundry income (that is, library).

Line 12, profits/(losses) from subsidiary companies not consolidated

123 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. The profit or loss from any other partnership arrangements should also be included in this line.

Line 13, interest receivable

124 Include interest from all sources.

Line 14, total income

125 Sum of lines 1 to 13.

Line 15, total expenditure – taken from form 2B

Line 16 surplus/(deficit)

126 Total income less total expenditure (line 14 less line 15). Also known as the operating surplus or deficit. This is shown before and after taxation and excluding assets transactions. The taxation charge is recorded on form 2A, non-pay expenditure.

Line 17 surplus/(deficit) on asset disposals

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

Line 18, surplus/(deficit) including asset transactions (after tax)

128 This line shows the surplus/(deficit) including asset transactions after taxation (line 16(b), surplus/(deficit) after tax plus line 17, surplus/(deficit) on asset disposals.

Appropriation of surplus/(deficit)

Line 19, transfer (to)/from revaluation reserves

129 The sum transferred from the revaluation reserve to the income and expenditure account to balance the depreciation charge on revalued assets and to release from the revaluation reserve any sums related to assets disposed of in the period.

Line 20, historical cost surplus/(deficit)

130 Surplus or deficit in the year after transfer to or from the revaluation reserve (line 18 plus line 19).

Line 21, transfer (to)/from restricted reserves

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

132 All such transfers to or from reserves will be explained in the commentary.

Line 22, transfer (to)/from designated reserves

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

134 Explain all such transfers to or from reserves in the commentary.

Line 23, surplus/(deficit) carried forward to the income and expenditure account

135 This is the sum of lines 20, 21 and 22.

Line 24, balance brought forward on the income and expenditure account.

136 The college's general funds carried over from the previous period as set out in the college's audited accounts.

Line 25, balance carried forward on the income and expenditure account

137 This is the total of lines 23 and 24.

Form 2A Non-pay Expenditure

138 The same breakdown of information is requested for non-pay and pay expenditure using the broad headings of teaching, other support, administration and premises. The analysis assists the Council in responding to queries on teaching costs versus administration costs. We use the analysis to prepare benchmarking data for colleges on levels of expenditure. The Council refers to the forecasts when considering college applications for capital projects to assess the impact on expenditure and efficiency.

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

Line 1, teaching departments

140 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, student support services

141 This item will cover the cost of centrally organised services providing teaching support to all students, 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 student 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 to help an individual student complete their learning programme. This could include the cost of a diagnostic assessment, specialist support, transport between college sites, and materials. Equipment purchases will not be included here
- student guidance on enrolment
- student support
- access fund payments
- payment to student unions
- recreation services such as non-curricular music, drama and sport
- medical services
- student services such as careers advisory services, welfare services and specific charges for counselling
- student transport
- general support fund payments
- residential bursary payments.

Line 3, other support services

142 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, work placements.

Line 4, administration and central services

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

- the revenue costs of administrative computing
- bank charges (excluding interest charges that are covered at line 16 below)
- legal and audit fees
- insurance premiums other than buildings insurance that 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 license, revenue-running costs of payroll, central licenses
- administration costs of using agency or part time staff whether this function is carried out centrally or in departments.

Line 5, general education expenditure

144 This will include:

a. marketing – overseas student recruitment costs, publicity and promotion, including course advertising, prospectuses, and market research, except where these are charged directly to college teaching departments;

b. examination costs.

Line 6, premises

145 Please show:

a. running costs other than maintenance, for example heating, lighting, cleaning, caretaking, water charges, security, insurance and national non-domestic rates;

b. maintenance – short-term and long-term maintenance costs, for example unblocking drains and repairing breakages;

c. rents and leases – the cost of acquiring space which is not owned by the college, including:

- moving costs, refurbishment costs
- minor building improvements and alterations not capitalised.

Line 7, research

146 This will include the costs of research not administration costs.

Lines 8 to 10, other income-generating activities, catering and residences and farming activities

147 The costs shown under these four headings will be the marginal costs of providing the activities that generate the corresponding streams of income shown in form 1. Where catering services are contracted out enter any subsidy here. Marginal costs in these cases are defined as the additional costs incurred to secure the income.

Line 11, payments made under section 6(5) of the Act

148 Payments made to external institutions under the college's sponsorship agreements. This will equal the income on line 10 of form 1.

Line 12, franchising provision costs

149 Include all franchising provision payments other than staff in this heading. Provide an account of significant franchising arrangements in the commentary.

Line 13, miscellaneous

150 This includes costs not shown elsewhere and will include trainee allowance costs where the college acts as the managing agent. Colleges will avoid charging items to this heading wherever possible and will explain any costs charged here in the commentary. Other expenses to be included:

- provision for bad debts
- costs for training restaurants/hair and beauty salons.

Line 14, depreciation

151 These lines are calculated automatically from schedule 5.

Line 15, interest on SSAP 24 provision

152 Interest on SSAP 24 provisions brought forward from schedule 8.

Line 16, other interest payable

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

Line 17, taxation

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

Line 18, total non-pay expenditure

155 Sum of lines 1 to 17. **Please note:** in the abbreviated version of the forecast total non-pay expenditure is not automatically calculated for the years ending 2002 and 2003. Please ensure the total figure is manually input at line 18 for these years.

Line 19, premises area (m^2)

156 Please enter the area of the college's premises in this line. Without this figure the premises cost per m^2 in schedule 14B, line 2(g), cannot be calculated.

Form 2B Pay Expenditure

157 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

158 Please show:

a. teaching – include the cost of staff who teach on courses where the college charges full or partial-cost recovery and on short and special courses. Where the effect is material apportion the costs of teaching staff who split their time between teaching and other income-generating activity (line 8 below) between line 1(a) and line 8 below. Include any costs of staff cover for teaching staff in this line;

b. other – 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, student support services

159 This will include the costs of any staff predominately 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 students over and above the programme activities included in a standard learning programme. This could include literacy or numeracy support, counselling, teachers of the deaf, Braille support and communicators/interpreters
- student guidance on enrolment
- student support, including the cost of administrating access funds
- college nurses, student welfare officers, recreation tutors, accommodation officers, careers officers, counsellors.

Line 3, other support services

160 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

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

- MIS salaries
- registry (examinations)
- computer maintenance/software development
- staff involved in fund raising/community focused roles
- data input staff

- TEC and New Deal administration costs
- time tabling staff
- quality unit.

Line 5, general education expenditure

162 Include the cost of any staff predominantly employed for:

a. marketing – including student recruitment, publicity and promotion;

b. examinations.

Line 6, premises

163 This will include:

a. running costs – the cost of cleaning, caretaking and security staff;

b. maintenance – the cost of staff engaged on routine and long-term maintenance, including the salaries of health and safety officers.

Line 7, research

164 This will include the pay costs of all staff involved in research, it will not include staff carrying out administration functions related to research – they will be included in administration and central services.

Lines 8 to 10, other income-generating activities, catering and residences and farming activities

165 Lines 7, 8, 9 and 10 will include all relevant pay-related costs on the same basis as in form 2A, lines 7 to 10. Where teaching staff carry out consultancy contracts, separately identify costs.

Line 11, franchising provision costs

166 Include franchising provision pay costs of the college's own employees under this heading. Provide an account of significant franchising arrangements in the commentary.

Line 12, miscellaneous

167 Include any staff costs not included in previous lines. Please provide an analysis of amounts making up this line. If there are any staff costs associated with training restaurant or hair and beauty salons linked to income generation, then they will be included here.

Line 13, contracted tuition services

168 This will include the pay costs of agencies used for providing tuition services.

Line 14, total pay expenditure before restructuring

169 Sum of lines 1 to 13. This line is used in calculating ratios.

Line 15, staff restructuring

170 This will include:

a. initial cost – include all staff-related initial payments in respect of restructuring (redundancy compensation and enhanced lump sum payments);

b. SSAP 24 provision – this is both the provision for any enhanced pension entitlement given and any provision necessary because of the under-funding of the college's liability under the Local Government Superannuation Scheme (LGSS). The split of costs under this heading will be detailed in the commentary.

171 Colleges undertaking a staff restructuring scheme, whereby they grant enhanced pensions, will be required to calculate a provision for future pension costs as described in SSAP 24, *Accounting for Pension Costs*. This provision will appear on line 15(b). The provision required is automatically entered for all periods from entries made on schedule 8.

172 Colleges will record any payments of enhanced pension costs and the interest payable on the SSAP 24 provision on schedule 8.

173 Guidance on calculating SSAP 24 provisions is contained in Circular 95/14.

Line 16, total pay expenditure after restructuring

174 Sum of lines 14 and 15(a) and 15(b).

Line 17, total non-pay expenditure

175 Line 17 from form 2A.

Line 18, total expenditure

176 Sum of lines 16 and 17.

Lines 19 and 20, number of staff (excluding contract tuition service staff)

177 Enter the number of teaching (that is, those staff whose costs are included in line 1a) and non-teaching staff (that is, those staff whose costs are

included in lines 1b to 12 inclusive) in full time equivalents at lines 19 and 20. It is important that these figures are entered, without them some key indicators cannot be calculated. Please note, contract tuition staff should be excluded from this line.

Form 3 Balance Sheet

178 The majority of the entries in the balance sheet are automatically calculated from the supporting schedules.

Line 1, fixed assets

179 The analysis of fixed assets is detailed to allow for ease of calculation.

180 Fixed assets include:

a. inherited land and buildings – the value of land and buildings acquired on vesting day;
b. the value of land and buildings acquired post-vesting day, funded by capital grant and valued at cost or subsequent revaluation;
c. the value of all other land and buildings valued at cost or subsequent revaluation;
d. the value of equipment acquired on vesting day;
e. the value of equipment acquired post-vesting day, funded by capital grant and valued at cost;
f. the value of all other capitalised equipment valued at cost or subsequent revaluation;
g. investments held as long-term assets valued at the lower of cost or market value;
h. other fixed assets;
i. total of lines 1(a) to 1 (h).

181 For the year ended 31 July 1999 lines a to h will be entered manually, using the figures in the college's audited financial statements for that year.

Line 2, current assets

182 Current Assets include:

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

Line 3, creditors: amounts falling due within one year

183 Creditors: amounts falling due within one year include:

a. overdrafts;
b. other loans falling due for repayment within one year;
c. LEA deficit loan repayable within one year;
d. trade creditors;
e. amounts due to the inland revenue and pension funds;
f. payments on account and deferred income;
g. all other short-term creditors;
h. total of lines 3(a) to 3(g).

Line 4, net current assets/(liabilities)

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

Line 5, total assets less current liabilities

185 Line 1(i) plus line 4.

Line 6, creditors: amounts falling due after one year

186 Creditors: amounts falling due after one year include:

a. loans falling due for repayment after one year;
b. the portion of any LEA deficit loan falling due for repayment after one year;
c. other long-term liabilities;
d. total of lines 6(a) to 6(c).

Line 7, total provisions, this will include long-term provisions. All entries will be explained in the commentary.

Line 8, total assets less liabilities

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

Line 9, deferred capital grants

188 This line is commuted from schedule 8.

Line 10, revaluation reserves

189 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

190 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

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

Line 13, income and expenditure account

192 The accumulated balance on the income and expenditure account.

Line 14, total reserves

193 The sum of lines 10 to 13.

Line 15, total (including deferred capital grants)

194 The sum of lines 9 and 14.

Line 16, (abbreviated version only), net funds/(debt) at end of year

195 This line is automatically calculated via entries in the balance sheet and schedule 7 and is linked to an error message on Form 4, cashflow statement.

Form 4 Cashflow Statement

196 This schedule calculates a cashflow statement, as required by Financial Reporting Standard 1 (FRS1), largely from entries made on other forms and schedules. Colleges may need to make some entries on this form. The entries on this form are:

- 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 FRS4, 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 cashflow statement. Cash inflows include withdrawals from deposit accounts or disposal of investments. Cash outflows include the placing of a deposit or acquisition of investments
- the standard requires a separate reconciliation of net cashflow to movement in net debt. This is incorporated as a continuation of form 4.

197 The reconciliation of the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities is automatically calculated and shown on schedule 12.

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

198 Shows the net increase or decrease in cash and cash equivalents resulting from operations shown in the income and expenditure account. This is calculated from the surplus/(deficit) generated in the period by adjusting for:

- depreciation
- deferred capital grants released to income
- profit/loss on disposal of fixed assets
- increase/decrease in stocks
- interest payable
- increase/decrease in debtors
- increase/decrease in trade creditors
- increase/decrease in tax and pension contributions
- increase/decrease in other payments on account
- increase/decrease in other liabilities
- increase/decrease in provisions
- interest receivable.

199 The software calculates these adjustments automatically and discloses them on schedule 12.

Line 2, returns on investments and servicing of finance

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

a. interest received;

b. interest paid;

c. interest element of finance lease rental payments;

d. net cash inflow/(outflow) from returns on investment and servicing of finance (the sum of lines 2(a) to 2(c)).

Line 3, taxation

201 This line needs to be entered manually where appropriate. Include cashflows to or from taxation authorities in respect of the institution’s revenue and capital surpluses. Deal with cashflows in respect of other taxation, including payments and receipts in respect of VAT within operating activities.

Line 4, capital expenditure and financial investment

a. payments to acquire fixed assets – includes all expenditure irrespective of how the acquisition was financed;
b. receipt from the sale of fixed assets;
c. deferred capital grants received – include all capital grants received in the period whether from the Council or any other source;
d. net cash inflow/(outflow) from capital expenditure. The sum of lines 4(a) to 4(c).

Line 5, management of liquid resources

202 Shows the cash inflow or outflow in the period from:

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

Line 6, financing

203 Shows the cash inflow or outflow in the period from:

a. new secured loans;
b. new unsecured loans;
c. repayments of amounts borrowed – secured and unsecured loans;
d. repayment of the LEA deficit loan;
e. capital element of finances lease rental payments;
f. net cash inflow/(outflow) from financing. The sum of lines 6(a) to 6(e).

Line 7, increase/(decrease) in cash

204 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)

205 Shows the change in net debt or net funds during the course of each year:

a. increase/(decrease) in cash. This will equal line 7;
b. cash to repay debt. This will equal the sum of lines 6(c) and (d);
c. cash used to increase liquid resources. This will equal line 5(c);
d. new loans and finance leases. This will equal the sum of schedule 7, lines 1(b)(ii), 1(b)(iii) and 4(b);
e. change in net funds/(debt) is the sum of lines 8(a) to (d);
f. net funds/(debt) at the beginning of the year. This comes from schedule 13, line 7 of the previous year;
g. net funds/(debt) at the end of the year. This comes from schedule 13, line 7.

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

Form 5 Principal’s Certificate

Reconciliation of movements between years

207 The purpose of this reconciliation is to attribute the movements in each college’s expenditure between years to changes in price and volume. Treat changes in salary costs due to promotions and annual increments as volume variances.

208 Calculate the movement in cost due to volume changes first, attribute the remaining movement to price changes.

209 Measure the changes from 1999-2000 to 2000-01 against the column that gives the expenditure for the teaching year 1999-2000. Only certain expenditure lines lend themselves to this type of analysis so exclude movement on the following from the analysis:

- non-pay expenditure – depreciation, payment under section 6(5) of the Act 1992, interest on SSAP 24 provision, other interest payable and taxation;
- pay expenditure – restructuring costs a) initial cost, b) SSAP 24 provision and contract tuition services.

Non-pay expenditure

Line 1, total non-pay expenditure for previous year

210 For each year this is the total relevant non-pay expenditure for the previous year. For example, in line 1 for 2000-2001 this is the sum of lines 1 to 10 plus lines 12 and 13 from form 2A for the year ending 31 July 2000.

Line 2, increase/(decrease) in year attributable to volume changes

211 Show the cost of volume changes planned for each year.

Line 3, increase/(decrease) in year attributable to price changes

212 Include the cost of price changes expected for each year. It is expected that this will equal the inflation rates set out in the commentary, if this is not the case, please explain this in the commentary.

Line 4, total of non-relevant non-pay expenditure in year

213 This is calculated as the sum of form 2A lines 11, 14, 15, 16 and 17.

Line 5, total non-pay expenditure forecast for the year

214 The sum of lines 1 to 4. This figure will be equal to form 2A line 18 for the relevant year.

Line 6, percentage price increase for non-pay expenditure

215 The level of non-pay inflation implied by the figures entered in line 1 to 5.

Pay expenditure

Line 7, total relevant pay expenditure for previous year

216 This is calculated as the sum of form 2B lines 1 to 12.

Line 8, increase/(decrease) in year attributable to volume changes

217 This is the cost of volume changes planned for each year.

Line 9, increase/(decrease) in year attributable to price changes

218 This is the cost of price changes expected for each year.

Line 10, total of non-relevant pay expenditure in year

219 This is calculated as the sum of lines 13, 15(a) and 15(b) from form 2B.

Line 11, total pay expenditure forecast for the year

220 The sum of lines 7 to 10. The sum entered here will equal the amount entered at form 2B line 16 for the relevant year.

Line 12, percentage price increase for pay expenditure

221 The level of pay inflation implied by the figures entered in lines 7 to 11.

Line 13, has the college revalued its assets since incorporation?

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

Line 14, computed health group

223 This line is calculated automatically. Details on how the computed health group is calculated are outlined in paragraphs 21 to 24 of this supplement.

College’s self-assessment of financial health

224 The Council requests colleges to insert their assessment of the most appropriate financial health group for the college on form 5 (at line 15). Provide comments on the college’s decision and any discrepancies from the computed health group in the commentary.

College’s budget statement

225 The Council requests colleges to say whether or not the forecast for 2000-2001 is also the budget for the college in that year, by entering a “Y” or “N” in the box provided at line 16. If the forecast is not also the budget for 2000-2001 then state the reasons in the commentary.

College’s risk management plan

226 Confirm the board of governors’ approval of the risk management plan by entering “Y” or “N” in the box provided at line 17.

Principal's certificate

227 The principal signs form 5 to indicate that the forecast is complete and the key ratios reviewed by the governing body. To assist the principal, if any part of this form is incomplete, or not completed correctly, a message is printed where the principal signs.

228 All forms produced by the application have the time and date printed at the foot of the page. The time and date on form 5 will be the same as the time and date on all other forms and schedules returned to the Council. The Council will ask colleges for another signed copy of their forecast if this is not the case.

Schedule 1A FEFC Funding Allocation

Purpose of schedule

229 This schedule is used to:

- estimate target units
- estimate the forecast funding allocation to be included in form 1
- estimate the average level of funding (ALF) for each unit.

Completion of schedule

230 This schedule is amended to cater for revisions to the funding allocation. Colleges will enter their 1999-2000 allocation in units (000s) and pounds (£000s) in lines 1 and 2 for 1999-2000.

Total allocation

231 The number of units at line 1 for the previous year is rolled forward to line 3 of the following year.

232 Colleges will enter adjustments to the baseline at line 4. This includes additional units for additional 16-18 year old students in 1999-2000, units removed for childcare support and additional units for widening participation (boxes (h), (j) and (l) respectively in the provisional funding allocation).

233 The base allocation at line 6 is calculated from the unit allocation for the previous year, the input adjustment units and the input ALF for the year.

Growth funding

234 Colleges will enter 2000-2001 allocations for growth in 16–18 year-old full-time student units, adult and part-time 16–18 student units and additional widening participation units in lines 7 and 8 (boxes (t) and (v) respectively in the provisional funding allocation). Enter any assumed further growth allocation in subsequent years in lines 7 and 8. The model assumes consolidation of previous year's growth.

235 Line 9 will include units for curriculum 2000 (box (x) in the provisional funding allocation).

236 Line 10 will include any additional units for university for industry (box (z) in the provisional funding allocation).

237 Line 11, colleges will enter any additional units assumed for growth in other areas of activity.

238 Enter the appropriate London weighting factor at line 13 for 1999-2000 and subsequent years.

239 Please note lines 7 to 12 on schedule 1A increase the baseline allocation for the following year.

Average level of funding

240 Enter the college's assumption for the ALF at line 14.

Revenue allocation

241 Enter any anticipated recovery of funds for previous years at line 15.

242 Where a college has received additional units that will not be consolidated into the base line for future years enter these at line 16: additional in-year allocation which is split between a) number of units and b) funding. The model does not assume consolidation of previous year's growth.

243 Enter the element of main allocation converted to capital grant at line 17. This is at least 2% of the allocation. For 2000-01 this is the value of box (ad) on the provisional funding allocation.

Memorandum lines

244 Lines 19 and 20 are memorandum lines. Line 19, forecast student FTEs is split between a)16–18 full-time and b) other. Line 20 is franchised provision in units.

Schedule 1B Other FEFC Income

Purpose of schedule

245 This schedule is used to estimate the amount of other income received from the Council and is split into revenue and capital income. The total revenue income received is carried forward to form 1 line 1(b).

Completion of the schedule

246 This schedule is included to show the breakdown of other FEFC income as shown in form 1 line 1(b) of the forecast.

Line 1, learner support funds

247 This is estimated income expected to be received from additional access funds, childcare support funds and residential bursaries.

Line 2, ethnic minority student achievement grant (section 11)

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

Line 3, basic skills school

249 This is additional income expected for basic skills provision.

Line 4, individual learning accounts

250 This is income received for individual learning accounts.

Line 5, rationalisation fund

251 This is income revenue funds expected due to rationalisation. Further details regarding this fund are in Circular 99/15.

Line 6, FE standards fund

252 This is income expected to be received from the FE standards fund.

Line 7, non-schedule 2 fund

253 This is income expected from non-schedule 2 projects.

Line 8, Widening participation strategic partnerships

254 This is income expected from these partnerships.

Line 9, the inclusive learning quality initiative

255 This is income expected from inclusive learning partnerships. Further details regarding this fund are in Circular 99/05.

Line 10, University for Industry projects

256 This is income expected for University for Industry projects separate from that included at schedule 1A.

Line 11, other FEFC income

257 This is all other FEFC revenue income not included in the categories above.

Line 12, total

258 The sum of lines 1 to 11.

Memorandum Table for New Capital Grant Expected Cashflows

259 Include the expected cash flows from these initiatives in this table. This helps the Council in its planning. Colleges should account for these grants on schedule 2 as for other capital grants.

Line 13, childcare places (learner support fund)

260 This is income expected from the childcare places fund.

Line 14, rationalisation fund (capital element)

261 This is the estimated capital grants to be received from rationalisation. Further details regarding this fund are in Circular 99/15.

Line 15, income to support financing of major works

262 This is the estimated income to support the financing of major works.

Line 16, IT infrastructure

263 This is the estimated income to support the financing of information technology for students.

Line 17, other FEFC capital grants

264 This is any other capital grant income from the FEFC.

Line 18, total

265 The sum of lines 13 to 17.

Line 19, college spend on ILT.

266 Colleges are asked to identify funds (capital and revenue converted to capital), from any source, expended on information learning technology.

Line 20, total college spend on ILT.

267 Sum of lines 19(i) and 19(ii).

Schedule 2 Funds for Capital Purposes

Purpose of schedule

268 This schedule is used to:

- record the amount of capital grants received by colleges
- ascertain the nature of expenditure made from capital grants received by colleges
- calculate the release of capital grants to income and expenditure account.

Completion of schedule

269 Capital grants are categorised into four types:

- FEFC funds for capital purposes expended on equipment
- major capital works grant received from the FEFC
- FEFC funds for capital purposes expended on land and buildings
- other capital grants.

270 Colleges will enter for each category of grant the amount, if any, of main allocation that they select to convert to capital grant in each year. The amount entered will correspond to that entered in line 17 of schedule 1A, FEFC funding allocation, in each year. Where this corresponding entry is not made, the cashflow forecast will not balance.

271 Colleges need to analyse:

- how capital grants received or main allocation used for capital purposes were spent
- any grants estimated to be unspent at the end of a period
- grants spent in advance of receipt at the end of a period
- any grants received in a prior period spent in the current period; and
- any grants spent in current period forecast to be received in a future period.

The details are necessary to calculate the release of capital grant and produce the cashflow statement.

272 For FEFC funds for capital purposes expended on equipment, enter:

a. in line 1(a) any expenditure made on fixed asset equipment from the grant, even if the expenditure is made before the grant is received;

b. in line 1(b) any revenue expenditure made on equipment from the grant, even if the expenditure is made before the grant is received;

c. in line 1(c) any grant received in the accounting period that is unspent at the end of that accounting period;

d. in line 1(d) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

e. in line 1(e) any grants received in a previous period but not spent until the current period, that is, the expenditure is included in 1(a) or 1(b) above in the current period;

f. in line 1(f) any grants spent in a previous period but not received until the current period, that is, the expenditure is included in 1(a) or 1(b) above in the previous period.

273 Line 1(g) is automatically calculated. Please check that this equals total capital equipment grant received in each period.

274 Colleges that benefit from major capital works grant will enter:

a. in line 2(a) any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 2(b) any revenue expenditure made on land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 2(c) any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

d. in line 2(d) any revenue expenditure made on equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

e. in line 2(e) any grant received in the accounting period that is unspent at the end of that accounting period;

f. in line 2(f) any expenditure made either on revenue or on fixed assets from grants due to be received but not yet received;

g. in line 2(g) any grants received in a previous period but not spent until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the current period;

h. in line 2(h) any grants spent in a previous period but not received until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the previous period;

i. in line 2(i) any capital element of retrospective Council assistance in the year in which the grant is received;

j. in line 2(j) any revenue element of retrospective Council assistance in the year in which the grant is received.

275 Only a few colleges will need to complete the above part and for most they only need to complete lines 2(a), 2(b), 2(c) and 2(d).

276 Line 2(j) will include, for the year in which the retrospective grant is received, a proportion of the cumulative depreciation to date charged to income and expenditure against the asset for which assistance was awarded. The proportion of the total depreciation charge entered will correspond to the proportion of support for the total project cost agreed by the Council. Transfer the amount of Council assistance allocated to revenue expenditure for cumulative depreciation to the income and expenditure account, form 1 line 2, release of capital grants, in the year of receipt.

277 Line 2(k) is automatically calculated. Please check that this equals total major capital works grant received in each period.

278 For FEFC funds for capital purposes expended on land and buildings enter:

a. in line 3(a) any expenditure made on fixed asset land and buildings for maintenance work or from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 3(b) any revenue expenditure made on land and buildings for maintenance work or from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 3(c) any grant received in the accounting period which is unspent at the end of that accounting period – payment on account;

d. in line 3(d) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

e. in line 3(e) any grants received in a prior period but not spent until the current period, that is, the expenditure is included in 3(a) or 3(b) above in current period;

f. in line 3(f) any grants spent in a prior period but not received until the current period, that is, the expenditure is included in 3(a) or 3(b) above in a previous period.

279 Line 3(g) is automatically calculated. Please check that this equals total minor capital works grant received in each period.

280 If the college benefits from any other capital grants, for example, ERDF, enter:

a. in line 4(a) any expenditure made on fixed asset land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

b. in line 4(b) any revenue expenditure made on land and buildings from the grant, even if the expenditure is made in advance of receipt of the grant;

c. in line 4(c) any expenditure made on fixed asset equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

d. in line 4(d) any revenue expenditure made on equipment from the grant, even if the expenditure is made in advance of receipt of the grant;

e. in line 4(e) any grant received in the accounting period that is unspent at the end of that accounting period;

f. in line 4(f) any expenditure made, either on revenue or on fixed assets, from grants due to be received but not yet received;

g. in line 4(g) any grants received in a prior period but not spent until the current period, that is, the expenditure is included in 4(a), 4(b), 4(c) or 4(d) above in the current period;

h. in line 4(h) any grants spent in a prior period but not received until the current period, that is, the expenditure is included in 2(a), 2(b), 2(c) or 2(d) above in the prior period. (For many colleges this section is irrelevant.)

281 Line 4(i) is automatically calculated. Please check that this equals the total of other capital grants received in each period.

282 Release of capital grants, section 5 (lines a to h), is automatically calculated from entries made on this schedule, schedule 3 disposal of fixed assets, and schedule 5, fixed asset depreciation.

Treatment of Council support for a project

283 Council support for capital projects is now granted as:

- continued loan support arrangements
- lump sum commutation of loan support
- lump sum grant over three years.

Loan support

284 Colleges in receipt of loan support will continue to account for it as previously.

285 For the first year only, the loan support is shown as major capital works grant in lines 2(a) and 2(b) of schedule 2, capital grants – capital element in line 2(a) and revenue element in line 2(b). For the first year only, the total cost of the project, net of the first year's capital element, is shown as other land and buildings additions.

286 In subsequent years, the Council support is shown as retrospective Council assistance in lines 2(i) and 2(j) of schedule 2, split appropriately between capital and revenue. The software makes all further adjustments automatically.

Commuted support

287 For planning purposes colleges should assume commuted support will be paid over three years in three equal instalments. In year one show the lump sum commuted support as retrospective Council assistance (line 2(i) of schedule 2) with the commuted support to be received in years two and three shown as a FEFC debtor (line 2(f) of schedule 2). The actual commuted support received in years two and three should be included in line 2 (h) of schedule 2 respectively.

Example – commuted support

288 A college receives a lump sum payment of £300,000 (commuted capital support) to be paid over three years in three equal instalments as follows;

Year 1 – year ending 31 July 2000	£100,000
Year 2 – year ending 31 July 2001	£100,000
Year 3 – year ending 31 July 2002	£100,000

289 The receipts should be input in the financial forecast workbook as follows;

Schedule 2, funds for capital purposes

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 2(f), grants claimed and spent but not rec'd (FEFC debtor)	200		
Line 2(h), grants expended in prior year rec'd in current year		100	100
Line 2(i), capital element of retrospective Council assistance	300		

290 The following entries are automatically calculated via the schedules

Schedule 4, fixed asset additions

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(a), total additions cash purchases	300		
Line 2 (c), total additions (net of retrospective grants received)	(300)		

Schedule 6, debtors

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 2, FEFC capital grants	200	100	

Schedule 8, provisions

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(a) balance b/fwd		300	300
Line 1(b) capital grants rec'd	100	100	100
Line 1(c) capital grant debtors	200		
Line 1(h) balance c/fwd	300	300	300

Form 3, balance sheet

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(b), land and building financed by capital grant	300	300	300
Line 1(c), other land and buildings	(300)	(300)	(300)
Line 2(b), debtors	200	100	
Line 2(d), cash (manual entry)	100	200	300
Line 9, deferred capital grant	300	300	300

Form 4, cashflow statement

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 4(c) deferred capital grants rec'd	100	100	100
Line 7 increase/ (decrease) in cash	100	100	100
Line 8(g) net funds/ (debt) at end of year	100	200	300

The £100,000 is also automatically input at lines 4(d), 8(a), 8(e) and 8(f).

291 Please note: in the full version of the three-year financial forecast the majority of entries on the balance sheet and cashflow statement are automatically generated via the schedules, manual entries will therefore be required in the abbreviated version.

Capital grant

292 For the first year show the grant received in year as major capital works grant in lines 2(a) and 2(b) of schedule 2. Record the total cost of the project, net of grant in other land and building additions (schedule 4 line 2(a)). In years 2 and 3 enter grants claimed and spent but not received in schedule 2 line 2(f) and enter any grants expended in the prior year received in the current year in schedule 2 line 2(h).

Example – capital grant

293 A college has a capital project approved by the Council with capital support of 35% on its eligible project cost of £1 million. The capital support of 35% (£350,000) will be paid by the Council over three years on support of evidence from the college that the expenditure has been made. The maximum that the college can claim will be as follows:

Year		*%*	*£*
1	1999-00	10.0	100,000
2	2000-01	12.5	125,000
3	2001-02	12.5	125,000
Total		**35.0**	**350,000**

294 The capital project eventually costs the college the estimated £1 million to be built. However, the building costs are spread evenly over two years as follows:

Year		*Project costs*		*Capital grant*
		£	%	£
1	1999-00	500,000	35.0	175,000
2	2000-01	500,000	35.0	175,000
Total			**35.0**	**350,000**

295 The transactions should be recorded as follows:

Schedule 2, funds for capital purposes

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 2(a), expenditure	175	175	
Line 2(f), claimed and spent but not received	75	125	
Line 2(h), grants expended in prior year received in current year		75	125
Line 2(k), total	100	125	125

296 The following entries are automatically input via the schedules.

Schedule 4, fixed asset additions

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(a) total additions – cash	175	175	
Line 2(a) additions – cash purchases	325	325	

Schedule 6, debtors

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 2, FEFC capital	75	125	

Schedule 8, provisions

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(a) balance b/fwd		175	350
Line 1(b) capital grants received	100	125	125
Line 1(c) capital grant debtors	75	125	
Line 1(e) grants expended in prior year received in current year		75	125
Line 1(h) balance c/fwd	175	350	350

Form 3, balance sheet

297 In the full version of the workbook the majority of the entries on form 3 and form 4 are calculated automatically via the schedules. Manual entries will therefore be required in the abbreviated version.

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 1(b) L&B financed by capital grant	175	350	350
Line 1(c) Other L&B	325	650	650
Line 2(b) Debtors	75	125	
Line 2(d) Cash (manual entry)	(400)	(775)	(650)
Line 9, Deferred capital grants	175	350	350

Form 4, cashflow statement

	1999-2000 £000s	*2000-01 £000s*	*2001-02 £000s*
Line 4(a) payments to acquire fixed assets	(500)	(500)	
Line 4(c) deferred capital grants rec'd	100	125	125
Line 4(d) net cash inflow/(outflow) from capital expenditure	(400)	(375)	125
Line 7 increase/ (decrease) in cash	(400)	(375)	125
Line 8(e) change in net funds/(debt)	(400)	(375)	125
Line 8(f) net funds/ (debt) at beginning of year	0	(400)	(775)
Line 8(g) net funds/ (debt) at end of year	(400)	(775)	(650)

Schedule 3 Disposal of Fixed Assets

Purpose of Schedule

298 This schedule :

- records the sales proceeds received from disposal of fixed assets
- records the initial cost or valuation of the fixed assets which were sold
- records the accumulated depreciation at the date of disposal of assets.

Completion of schedule

299 For the 12-month accounting period to 31 July 2000 and three forecast years to 31 July 2001, 31 July 2002 and 31 July 2003 colleges enter, for each category of fixed asset:

- the sale proceeds received from disposal of fixed assets in lines 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), 7(a) and 8(a)
- the valuation of inherited fixed assets disposed of in lines 1(b) and 4(b)
- the initial cost or subsequent valuation of those fixed assets disposed of which were acquired after 1 April 1993 in lines 2(b), 3(b), 5(b), 6(b), 7(b) and 8(b)
- the accumulated depreciation at date of disposal of assets in lines 1(c), 2(c), 3(c), 4(c), 5(c), 6(c) and 8(c).

300 Information entered onto this schedule is used in:

- form 3 balance sheet, lines 1(a) to 1(h), to calculate fixed asset values
- form 4 cashflow, line 4(b), to calculate cash received from the sale of fixed assets
- schedule 2 capital grants, line 5(g), release of capital grants on assets disposed
- schedule 11 revaluation reserve, line 8, transfer to income account in the current period – net book value of disposed inherited fixed assets
- schedule 12 cashflow reconciliation, line 4, profit/loss on disposal of fixed assets.

301 Colleges are reminded that any surplus or deficit on disposals of fixed assets should be recorded on form 1, line 17.

Example

302 During 1999-2000, a college sells inherited land and buildings for £50,000. At 1 April 1993 these assets were valued at £45,000 and at the date of disposal were depreciated by £5,000. During 2000-2001, equipment financed by capital grant is scrapped (nil sales proceeds). The equipment had initially cost £10,000 and had been depreciated by £7,000.

Extract from schedule 3 following entry of these transactions

		Year ended 31 Jul 2000 £000	*Year ended 31 Jul 2001 £000*
1	**Inherited land and buildings**		
a.	Sale proceeds	50	–
b.	Valuation at 1 April 1993	45	–
c.	Accumulated depreciation at date of disposal	5	–
5	**Equipment financed by capital grant**		
a.	Sale proceeds	–	0
b.	Cost or valuation	–	10
c.	Accumulated depreciation at date of disposal	–	7

At form 1, line 17, a surplus on disposal of fixed assets of £10,000 would be recorded in 1999-2000 and a loss of £3,000 would be recorded in 2000-2001.

Schedule 4 Fixed Asset Additions

Purpose of schedule

303 This schedule is used to:

- record additions to fixed assets purchased from cash
- record additions to fixed assets financed by finance leases.

Completion of schedule

304 For the 12-month accounting period to 31 July 2000 and three forecast years to 31 July 2001, 31 July 2002 and 31 July 2003 colleges will enter:

- additions to other land and buildings, other equipment, investments and other assets purchased from cash in lines 2(a), 4(a), 5(a) and 6(a)
- additions to other land and buildings, other equipment, investments and other assets financed by finance leases in lines 2(b), 4(b) and 6(b).

305 Additions to assets financed by capital grants are automatically calculated from entries made on schedule 2 lines 1(a), 2(a), 2(c), 2(i), 3(a), 4(a) and 4(c). Inherited fixed assets cannot be added to.

306 If retrospective Council assistance is received for a capital project for the period in which the retrospective grant is received, the figure for 2(c), total additions, will be quoted net of retrospective capital grant.

Example

307 During 1999-2000, a college purchases equipment (categorised as other equipment) for £20,000. This purchase is made using a finance lease. During 2000-2001 other fixed assets are purchased from cash at a cost of £30,000.

Extract from schedule 4 following entry of these data

		Year ended 31 Jul 2000 £000	*Year ended 31 Jul 2001 £000*
4	**Other equipment**		
a.	Additions – cash purchases	–	–
b.	Additions – financed by finance leases	20	–
c.	Total additions	20	–
6	**Other**		
a.	Additions – cash purchases	–	30
b.	Additions – financed by finance leases	–	–
c.	Total additions	–	30

308 Colleges may use the capital allocation for the capital and interest element of new finance leases. The sum charged to the Council's capital allocation will not exceed the actual sum paid to the finance house. (It is feasible under some methods of allocating interest charges to the life of the lease that the combined depreciation and interest charges may exceed the sum paid in early years.) The grant received in any year will be set against the lease payment for that year. Grant will not be set aside to meet future years' lease payments. Any assets acquired under finance leases met by Council grants will be treated as Council-funded assets.

Schedule 5 Fixed Asset Depreciation

Purpose of schedule

309 This schedule is used to record depreciation provided on all categories of fixed asset, including depreciation on revalued assets.

Completion of schedule

310 Colleges are required to enter a depreciation provision, based on cost or the revalued amount, for each category of fixed asset in all accounting periods. Totals are calculated for depreciation on inherited assets, on assets funded by deferred capital grants and other assets.

311 Information entered onto this schedule is used in:

- form 3 balance sheet, lines 1(a) to 1(h), to calculate the net value of fixed assets
- form 2A non-pay expenditure, line 14, depreciation
- schedule 2 capital grants, lines 5(a) and 5(b), release of capital grants depreciation on assets funded by capital grants
- schedule 11 revaluation reserve, line 7, transfer to income and expenditure account depreciation on inherited fixed assets for revalued amount, line 30, transfer to income and expenditure account depreciation on other fixed assets for revalued amount
- schedule 12 cashflow reconciliation, line 2, depreciation.

Schedule 6 Debtors

Purpose of schedule

312 This schedule is used to record and analyse debtors in a way that assists the production of the cashflow statement.

313 Line 1 includes FEFC/LSC recurrent funding.

314 Line 2, FEFC/LSC capital grants, and line 3, other capital grants, are automatically calculated from entries made on schedule 2, capital grants lines 1(d), 2(f), 3(d) and 4(f) for each of the accounting periods after 31 July 1999.

Schedule 7 Creditors

Purpose of schedule

315 This schedule is used to record and analyse creditors.

316 Enter bank overdrafts at line 1(a).

317 For loans enter:

- in line 1(b)(i) in 31 July 1999 column any balance outstanding on loans at that date
- in line 1(b)(ii) any new secured loans taken out in the period
- in line 1(b)(iii) any new unsecured loans taken out in the period
- in line 1(b)(iv) any repayment of loan capital made in the period.

318 Line 1(b)(v) total loans is automatically calculated.

319 To comply with standard accounting practice colleges will analyse the total loans outstanding at line 1(b)(v) between those repayments falling due within one year and those falling due after more than one year. The analysis will be entered at lines 1(b)(vi) and 1(b)(vii). A total is automatically calculated at line 1(b)(viii).

320 Lines 1(b)(v) and 1(b)(viii) will be equal.

321 For LEA deficit loan enter:

a. in line 2(a) in 31 July 1999 column any balance outstanding on LEA loan deficit at that date;

b. in line 2(b) any repayment of loan capital made in the period.

322 Line 2(c) total LEA deficit loan is automatically calculated.

323 Colleges will analyse the total LEA deficit loan outstanding at line 2(c) between those repayments falling due within one year and those falling due after more than one year. The analysis will be entered at lines 2(d) and 2(e). A total is automatically calculated at line 2(f). Lines 2(c) and 2(f) will be equal.

324 For payments on account enter:

a. in line 3(a) in 31 July 1999 column any capital grants payments on account;

b. in line 3(b) any other payments on account;

c. line 3(c) total payments on account is automatically calculated.

325 For finance leases enter:

a. in line 4(a) in 31 July 1999 column any balance outstanding on finance leases at that date;

b. in line 4(b) any new finance leases taken out in the period;

c. in line 4(c) the capital element of any finance lease payments made in the period;

d. a total is automatically calculated at line 4 (d).

326 Colleges will analyse lease payments falling due within one year at line 4 (e) and those falling due after more than one year at line 4 (f). A total is automatically calculated at line 4 (g). Lines 4 (d) and 4 (g) will be equal.

327 For other liabilities enter:

a. in line 5(a) any recovery of FEFC funds relating to the period;

b. in line 5(b) any interest payable at 31 July unpaid at that date;

c. in line 5(c) any other liabilities.

328 Line 5(d) total other liabilities is automatically calculated.

329 Colleges will analyse the total other liabilities outstanding at line 5(d) between those repayments falling due within one year and those falling due after more than one year. The analysis will be entered at lines 5(e) and 5(f). A total is automatically calculated at line 5(g). Lines 5(d) and 5(g) will be equal.

Schedule 8 Provisions

Purpose of schedule

330 This schedule records:

- movements in provisions
- period end balances on provisions.

Completion of schedule

331 Most of this schedule is calculated from information entered on other forms and schedules. For deferred capital grants, line 1, only enter figures for the 31 July 1999 balance sheet in lines 1(a) balance brought forward, 1(b) capital grants received, 1(e) grants expended in prior year received in current year, 1(f) grants received in prior year expended in current year and 1(g) capital grants released to income and expenditure account in period. All other information is automatically calculated.

332 For SSAP 24 provision, line 2(a), enter any balance brought forward at 1 August 1999 at line 2(a)(i), any provision made in the period in line 2(a)(ii), the interest due on the provision in the period in line 2(a)(iii) and any expenditure from the provision at line 2(a)(iv).

333 For other provisions, line 2(b), enter any provision carried forward at 31 July 1999, in line 2(b)(i), any provision made in the period in line 2(b)(ii) and any release of provision in line 2(b)(iii).

Schedule 9 Finance Leases

Purpose of schedule

334 Analyses payments made under finance leases between the capital element and interest element.

Completion of schedule

335 Colleges should enter total payments made under finance leases into line 3. The capital element of the repayment, line 1, is automatically included from the entry made on schedule 7, creditors, line 4(c). The interest element of payments made under finance leases, line 2, is automatically calculated, as line 3 less line 1.

Example

336 A college has continued obligations under finance leases and hire purchase agreements of £10,000 in 1999-2000 and £12,000 in 2000-2001, 2001-2002 and 2002-2003. Repayments of capital are £9,000 during 1999-2000 and £10,000 during 2000-2001, 2001-2002 and 2002-2003.

337 In addition, the college has a new three-year finance lease of £54,000, forecast to begin in 2001-2002. The college has obligations of £20,000 in 2001-2002, 2002-2003 and 2003-2004 in this respect. Repayments of capital are £18,000 in 2001-2002 to 2003-2004 inclusive.

338 The example requires manual entries in schedule 9, finance leases, line 3; schedule 7, creditors, lines 4(a) to 4(g); and schedule 4, fixed asset additions, line 4(b). The example also affects form 4, cashflow (in the financing and reconciliation sections) and form 3, balance sheet (in the fixed asset section). The abridged schedules below show the entries described in the example above.

339 For the purpose of clarity, depreciation is excluded from this example. Colleges are reminded that failure to fully complete the above schedules, where appropriate, can lead to cashflow and/or balance sheet errors.

Completion of schedule 9, finance leases

	Year ended 31 Jul 2000 £000	*Year ended 31 Jul 2001 £000*	*Year ended 31 Jul 2002 £000*	*Year ended 31 Jul 2003 £000*
1 Capital element	9	10	28	28
2 Interest element	1	2	4	4
3 Total finance lease payment	10	12	32	32

Completion of schedule 7, creditors

	Year ended 31 Jul 2000 £000	*Year ended 31 Jul 2001 £000*	*Year ended 31 Jul 2002 £000*	*Year ended 31 Jul 2003 £000*
4 Finance leases a) Finance lease balance brought forward	39	30	20	46
b) New finance leases			54	0
c) Capital element of finance lease payments	9	10	28	28
d) Total finance lease obligations	30	20	46	18
e) Lease payments falling due within 1 year	10	10	28	18
f) Lease payments falling due after 1 year	20	10	18	0
g) Total finance lease obligations	30	20	46	18

Completion of schedule 4, fixed asset additions

	Year ended 31 Jul 2000 £000	*Year ended 31 Jul 2001 £000*	*Year ended 31 Jul 2002 £000*	*Year ended 31 Jul 2003 £000*
4 Other equipment a) Additions – cash purchases				
b) Additions – financed by finance leases			54	
c) Total additions	0	0	54	0

Schedule 10 Analysis of Pay Expenditure

Purpose of schedule

340 This schedule is used to obtain an analysis of pay expenditure between permanent staff, other staff and staff restructuring expenditure. This analysis is required in financial statements for the sector and is also used for bench marking.

Completion of schedule

341 For each of the accounting periods colleges will analyse total pay expenditure from form 2B line 16. Enter the analysis of expenditure between permanent staff and other staff into lines 1 and 2. The entry for line 3 contracted tuition service staff is automatically calculated from data on form 2B line 13, contracted tuition services. The entry for line 4 staff restructuring is automatically calculated from data on form 2B lines 15(a) and 15(b), staff restructuring initial cost and SSAP 24 provision.

342 Line 5, total pay expenditure, is automatically calculated as the sum of lines 1 to 4. Reasoned estimates of the proportion of expenditure of each category of work are acceptable but ensure that the total on this form, line 5, is the same as the total pay expenditure for form 2B line 16.

Schedule 11 Revaluation Reserves

Purpose of schedule

343 This schedule is used to record movements in the revaluation reserve.

Completion of schedule

344 The schedule is split into the following categories of assets:

- inherited land and buildings
- inherited equipment
- land and buildings financed by capital grant
- equipment financed by capital grant
- other land and buildings
- other equipment
- investments
- other fixed assets.

345 Lines 1 to 10 of the schedule cover the movements in the revaluation reserve for inherited land and buildings and equipment.

Line 1, inherited land and buildings brought forward

346 This is the value of inherited land and buildings brought forward.

Line 2, new inherited land and buildings revaluations

347 The entry discloses new revaluations for inherited land and buildings.

Line 3, inherited equipment brought forward

348 This is the value of inherited equipment brought forward.

Line 4, new inherited equipment revaluations

349 This is new revaluations for inherited equipment.

Line 5, total inherited fixed asset revaluations

350 The sum of lines 1 to 4.

Line 6, accumulated transfers to the income and expenditure account brought forward for inherited fixed assets

351 This is the accumulated transfers (depreciation) to the income and expenditure account brought forward for all inherited fixed assets.

Line 7, transfer to income account in current period – depreciation on inherited fixed assets for revalued amount

352 This line is automatically calculated (schedule 5, line 3, total depreciation on inherited assets).

Line 8, transfer to income account in the current period – net book value of disposed inherited fixed assets

353 This line is automatically calculated (schedule 3, (line 1(b) minus line 1(c)) plus (line 4(b) minus line 4(c)).

Line 9, unrealised gain/(loss) on inherited land and buildings

354 This is the unrealised gain or loss on inherited land and buildings.

Line 10, unrealised gain/(loss) on inherited equipment

355 This is the unrealised gain or loss on inherited equipment.

356 In lines 11 to 28 enter revaluations brought forward and new revaluations for:

- land and buildings financed by capital grant
- equipment financed by capital grant
- other land and buildings
- other equipment
- investments
- other fixed assets.

357 The sum of revaluations brought forward and new revaluations, for each category of asset, is calculated automatically.

358 Please note that in lines 29, 30, 31 and 32 the term other fixed assets includes all the categories of fixed assets listed in paragraph 356.

Line 29, accumulated transfers to the income and expenditure account brought forward for other fixed assets

359 This is accumulated transfers to the income and expenditure account brought forward for other fixed assets.

Line 30, transfer to income account in current period – depreciation on other fixed assets for revalued amount

360 This line is automatically calculated (the sum of lines 7 and 13 from schedule 5).

Line 31, transfers to income and expenditure account in the current period – revaluation portion of the net book value of disposed other fixed assets

361 This is the revaluation portion of the net book value of disposed other fixed assets.

Line 32, unrealised gain/(loss) on other fixed assets

362 This is the unrealised gain or loss on other fixed assets.

Line 33, revaluation reserve balance

363 This line is calculated automatically from figures entered in schedule 11 (line 5 minus lines 6, 7, and 8 plus lines 9, 10, 13, 16, 19, 22, 25, 28, minus lines 29, 30 and 31 plus line 32).

Example

364 Schedule 11 is revised to allow for revaluations of assets acquired since incorporation and further revaluation of inherited assets. An example is set out below of how to account for a revaluation of assets and subsequent disposal.

365 A college holds the following assets that it revalues at 31 July 2000.

366 The net book value at 31 July 1999 will be entered on form 3 as normal. The depreciation charge for 2000 will be recorded on schedule 5 as normal.

	Net book value of assets at 31 July 1999 £000	***Depreciation charge in year to 31 July 2000 £000***	***Revaluation at 31 July 2000 £000***	***Amount of revaluation £000***	
Inherited land and buildings †	400	20	500	120	a)
Land and buildings financed by capital grant	200	10	250	60	b)
Other land and buildings	200	20	250	70	c)
Inherited equipment *	50	10	30	(10)	d)
Equipment financed by grant	200	10	150	(40)	e)
Other equipment	600	100	500	0	
Other assets	30	5	25	0	
Total	**1680**	**175**	**1705**	**200**	

† *valuation at 1 April 1993 £600,000 f) less depreciation £200,000 g)*

* *valuation at 1 April 1993 £100,000 h) less depreciation £50,000 i).*

367 The revaluation will be recorded as follows:

Schedule 11

Line			***£000***
1		inherited land and buildings brought forward	600 *f*)
2		new inherited land and building revaluations	120 *a*)
3		inherited equipment brought forward	100 *h*)
4		new inherited equipment revaluations	(10) *d*)
5		total inherited fixed asset revaluations	810 *total of 1–4 above*
6		accumulated depreciation transfers to income and expenditure account brought forward for inherited assets	250 *g) plus i)*
7		transfer to income and expenditure account depreciation on inherited assets	30 *from schedule 5*
12		new land and buildings financed by capital grant revaluations	60 *b*)
18		new other land and buildings revaluations	70 *c*)
33		revaluation reserve balance	660 *total*

Form 2a

Line			***£000***
13		miscellaneous	40 e)

schedule 3

Line			***£000***
5b		cost or valuation	40 e)

368 These two entries cover the revaluation loss on equipment financed by grant that will be taken to the income and expenditure account. The revaluation loss on inherited equipment can be taken to the revaluation reserve as there is an existing revaluation gain for these assets.

369 Depreciation on the revalued amount will then be recorded as follows:

		Year ended 31 July 2001 £000
a.	inherited assets on schedule 5 as previously	
	– line 1, (assuming 20 years remaining life)	25
	– line 2, (assuming 3 years remaining life)	10
b.	land and buildings financed by grant	
	– schedule 5	
	– line 4(a) depreciation cost	10
	– line 4(b) depreciation on revalued amount	3
	(assuming 20 years remaining life before and after revaluation)	
c.	equipment financed by grant	
	– schedule 5	
	– line 5(a) depreciation on cost	30
	– (entry on this line only as no release from revaluation reserve)	
	– (assuming 5 years remaining life)	
d.	other land and buildings	
	– schedule 5	
	– line 9(a) depreciation on cost	10
	– line 9(b) depreciation on revalued amount	3
	– (assuming 20 years remaining life before and after revaluation)	

370 The college then disposes of the following assets in 2001-02:

a. inherited land and buildings valued at £250,000 in 2000 for proceeds of £150,000 (that is 50% of the inherited assets);

b. other land and buildings valued at £100,000 in 2000 for £200,000 (that is 40% of the other land and buildings).

371 The following entries are needed:

Schedule 3

		Year ended 31 July 2002
Line		***£000***
1(a)	sale proceeds	150
1(b)	valuation	250
1(c)	accumulated depreciation	13 *(50% of the charge at paragraph 369 (a) line 1)*
3(a)	sale proceeds	200
3(b)	valuation	100
3(c)	accumulated depreciation	4 *(40% of charge at paragraph 369 (d) line 9a)*

Form 1

Line		*£000*
17	surplus/(deficit) on asset disposals	17

(loss on a. of £87,000 and profit on b. of £104,000)

Schedule 11

Line		*£000*
31	transfer to income account in current period – revaluation portion of net book value of disposed other fixed assets (40% of figure c) at paragraph 363)	28

Form 3

Line		*£000*
2(d)	Cash	350

Schedule 12 Cashflow Reconciliation

Purpose of schedule

372 To reconcile the operating surplus/(deficit) to net cash inflow/(outflow) from operating activities for form 4 cashflow statement.

Completion of schedule

373 This schedule is automatically calculated from entries made on other forms and schedules.

Points to note:

- line 1, surplus/(deficit), is taken from form 1, line 18, surplus/(deficit) including asset transactions (after tax)
- line 7, (increase)/decrease in debtors – excludes any debtors for interest and capital grants
- line 10, increase/(decrease) in other payments on account – excludes any capital grant debtors
- line 11, increase/(decrease) in other liabilities – excludes interest creditors and finance lease balances
- line 12, increase/(decrease) in provisions – includes total provisions.

Schedule 13 Analysis of Net Debt

Purpose of schedule

374 To obtain an analysis of net debt relevant to the cashflow statement, form 4.

Completion of schedule

375 This schedule is automatically calculated from data entered on:

- form 3, balance sheet, line 2(c) short-term investments
- form 3, balance sheet, line 2(d) cash
- schedule 7, creditors, line 1(a) bank overdraft.

376 Entries cannot be made directly onto this schedule.

377 Information contained on this schedule is used on form 4, cashflow statement, lines 8(f) net funds/(debt) at beginning of year and 8(g) net funds/(debt) at end of year.

Schedule 14 Forms A and B Ratio Analysis

Purpose of schedule

378 This schedule is used to inform colleges of key financial indicators from the forecasts prepared. The calculations for each indicator are set out in annex D to this supplement.

Completion of schedule

379 The income figure used in this schedule is total income, excluding asset transactions (line 14 form 1) less income for payments under section 6(5) of the Act 1992 (line 10 form 1), and less release of capital grants (line 2 form 1).

Error Messages

380 If any of the schedules or forms are incomplete an error message will appear. Ignore them until all forms and schedules are completed. If error messages continue to be displayed after all figures are entered then investigate the cause.

381 The error messages are:

Form 2A

- income received for payments under section 6(5) of the Act 1992 does not equal payments made under section 6(5) of the Act 1992, if line 10 form 1 and line 11 form 2A are not equal in any period
- please enter your premises area (m^2).

Form 2B

- analysis of pay costs does not equal total pay expenditure form 2B, if line 5 schedule 10 and line 16 form 2B are not equal in any period
- total pay expenditure does not equal form 2B, if line 11 form 5 and line 16 form 2B are not equal in any period
- total non-pay expenditure does not equal form 2A, if line 5 form 5 and line 18 form 2A are not equal in any period
- please enter the number of teaching staff (FTEs)
- please enter the number of non-teaching staff (FTEs).

Form 3

- the balance sheet does not balance, if line 8 and line 15 on form 3 are not equal in any period
- the total of inherited assets (line 1a plus line 1d) does not equal the balance on revaluation reserve. This error message will only be triggered if the college has answered no to line 13 of form 5.

Form 4

- the cashflow statement does not balance for 2000, 2001, 2002 or 2003 if line 8(e) plus line 8(f) does not equal line 8(g)
- net funds/(debt) does not match balance sheet (abbreviated version only) if line 8(g) does not equal line 16 on Form 3.

Form 5

- insert Y or N to comment on whether the college has revalued its assets
- assign college to health group A, B or C
- insert Y or N to comment on whether the figures for the year ending 31 July 2001 are also the budget for the year ended 31 July 2001 and are approved by the corporation
- insert Y or N to confirm that the college's risk management plan, as attached, is approved by the corporation.

Schedule 1A

- please enter forecast FTEs, 16 to 18 full-time
- please enter forecast FTEs, other
- please enter franchise provision units, if applicable.

Schedule 7

- analysis of loans falling due within one year and after one year does not equal total loans, if lines 1(b)(v) and (viii) schedule 7 are not equal in any period
- the value in line 2(c) must equal line 2(f)
- the value in line 4(d) must equal line 4(g)
- the value in line 5(d) must equal line 5(g).

Schedule 8 provisions

- insufficient SSAP 24 provision made to allow for release of provision, if schedule 8 line 2(a)(iv) is greater than the sum of lines 2(a)(i), 2(a)(ii) and 2(a)(iii) in any period.

382 Please ensure all error messages are cleared before the forecast is returned to the Council.

Negative Figures

383 Within the financial forecast application, entry of negative figures is only permitted in the following lines:

Form 1

- line 5 a) i) repayment of European funding
- line 12, results of subsidiary companies not consolidated
- asset disposals in line 17 and 18, surplus/(deficit) on asset disposals/transactions
- line 19, transfer (to)/from revaluation reserves
- lines 21 and 22, transfer (to)/from reserves
- line 24, balance brought forward on income and expenditure account at 1 August 1999 only.

Form 5

- reconciliation of movements between years.

Schedule 11

- lines 6, 7 and 31 unrealised gains or losses on revaluation reserve.

384 If negative figures are input into any other lines, an error message will appear on the relevant form.

385 The use of negative figures is not restricted in the mid-year update. When entering data into this application, it is important to ensure the negative value is input if applicable. This is particularly important when entering data onto the cashflow statement.

Financial Returns Spreadsheets

Three-year Financial Forecast

386 The workbook called Fcst00FL/AB.XLS contains the three-year financial forecast forms and schedules. This year the workbook will be provided in two formats, a full version (Fcst00FL.XLS) containing all the forms and schedules from last year and an abbreviated version (Fcst00AB.XLS) containing forms 1 to 5 and schedules 1A, 1B, 7, 14A and 14B.

Finance record 1999-2000

387 The finance record 1999-2000 covers the 12-month period ending 31 July 2000. It includes the first column of forms 1, 2A, 2B and 4 and schedule 1B of the three-year financial forecast, and the second column of form 3. Please note that in the finance record schedule 1 is the equivalent to schedule 1B of the financial forecast.

388 Colleges are asked to complete the column of figures in forms 1, 2A, 2B, 3 and 4 and schedule 1 and to return this information to the Council. Please ensure that line 2 of form 1, release of capital grants, includes the sum of FEFC capital grants and capital grants from all other sources.

389 Where there are variances between the final out-turn for 1999-2000 and the forecast provided in July 2000 greater than 1%, colleges should explain the variances in an accompanying commentary.

390 The workbook called Record00.XLS contains the finance record forms for 1999-2000.

Mid-year update 2000-01

391 The mid-year update contains forms 1, 2A, 2B, 3 and 4 and schedule 1 (schedule 1B of the three-year financial forecast). The headings in each of the forms are identical to those used in the three-year financial forecast. There are four columns of figures in this return. The first column is the college's original estimate of the out-turn for the year ending 31 July 2001. This column will be consistent with the college's forecast for this period returned to the Council in the three-year financial forecast. The second column is used for the college's revised forecast for the year. Columns 3 and 4 are calculated automatically and show the variation between the original forecast and the mid-year update of the figures. The variation is displayed as an actual difference and as a percentage.

392 Where there are variances between the final out-turn for 1999-2000 and the mid-year update provided in February 2001 greater than 1%, colleges should explain the variances in an accompanying commentary.

393 The workbook called Midyr00.XLS contains the mid-year update forms for the year 2000-2001.

Potential problems

394 A number of issues caused colleges problems completing past years' financial forecasts. The most common problems were:

- balance sheet or cashflow did not balance
- copying data to disk
- printing forms
- Council support for capital projects.

Solutions to these problems are suggested below

Balance sheet does not balance

395 Many colleges 'completed' their forecasts only to find that the balance sheet did not balance. In most cases, the error was due to incomplete recording of transactions. The following checklist will help identify the reason for imbalance in the majority of cases:

a. the balance sheet should balance at lines 8 and 15. If it does not balance the forecast is incomplete;

b. the most common area where errors occur is schedule 7, creditors. The following lines in the schedule will be equal. If they are not equal then the balance sheet will not balance:
   - i. line 1(b)(v) will equal line 1(b)(viii)
   - ii. line 2(c) will equal line 2(f)
   - iii. line 4(d) will equal line 4(g);

c. after schedule 7, capital grants cause the most problems, 'payments on account' or 'capital debtors' require particular care;

d. other entries to check if the two schedules above are correct are:
   - i. debtors, schedule 6
   - ii. provisions and deferred capital grants, schedule 8.

396 Please note that unrealised gains or losses on assets will be accounted for in schedule 11, revaluation reserve.

Disk problems

397 If you have any problems with the operation of the workbook please contact the finance support desk on 024 76 863065.

Installation

398 This year the workbooks for the three-year financial forecast will be available on the Council's website (www.fefc.ac.uk). Colleges will be able to download the workbooks as Excel 97 5.0/7.0 workbooks. If colleges are not able to access the Council's website please contact the help desk (024 7686 3065) and the workbooks can be sent via e-mail or floppy disk.

Website

399 To down load the workbooks from the Council's website go to **www.fefc.ac.uk** . Click on the link **Circulars** , then click on the link **2000** and scroll down to the circular titled **Strategic Plans including Financial Forecasts and Accommodation Data.** Below this you will need to click on the link **Institutions Strategic Planning Update – September 2000.** Colleges will be able to download the version they require as an Excel 97 5.0/7.0 workbook (please save the workbook in the same format). Colleges can return either version of the workbook to the Council **(please note – some colleges may be asked to complete the full version of the workbook. These colleges will be notified by their regional finance director. Please return the workbook via floppy disk to the Coventry office.**

Form layout

400 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 maximised within the current screen settings by clicking on the maximise button (the middle button in the top right-hand corner of the template). Click on the scroll bar or the up and down arrows on the scroll bar to move up and down within the form.

401 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. 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

402 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.

403 Error messages will be shown on the individual forms if not all schedules are 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 leave a form or schedule. Amendments made to the form or schedule will be lost if the form or schedule is **not saved.** If no amendments are made the form will close without prompting a save.

Printing forms

404 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.

405 The printout will be sent to your Windows default destination printer. If you wish to confirm or amend the destination printer, select the Print Set-up option from the File menu options.

406 To select a different printer, select Specific Printer. Press the arrow to the right of the text box. This will provide you with a drop-down list of all available printers. Select the printer you require.

407 The printer defaults for each form is an A4 printer set to portrait format.

Copying data for return to the Council

408 The workbook can be stored on any available drive including networked drives (colleges are advised to store a copy of the workbook in a safe place ie on a backed up drive, or save a copy to

floppy disk). When complete the data should be saved to floppy disk using files, save as, highlight drive A: and save the workbook as Forcst00.xls. The data can also be saved onto disk via Windows Explorer. To save data onto disk using this method, ensure that the file to be saved is closed and insert a formatted disk in the computer disk drive (normally drive A:). In Windows Explorer select the drive where the workbook is stored on the hard drive, click on the workbook name and on the menu bar select Edit > Copy. Then select your floppy drive (usually A:drive), Edit > Paste. Please ensure the file is saved as Forcst00.xls.

409 Copies of the data can be saved to any available networked drive. Use File > Save As and change the drive and directory to the destination of the data. Click on OK.

Checklist

1 The checklist below is for colleges' own use and does not need to be returned to the Council.

Financial objectives

2 Has the college set detailed financial objectives? ❑

3 Are they set out in the commentary? ❑

Strategic plan

4 Is there a clear link between the projected student numbers included in the strategic plan and the growth in funding units and full-time equivalent student numbers recorded on schedule 1A of the financial forecast? If not, please explain any changes in the commentary. ❑

5 Do the payroll costs included in form 2B to the forecast reflect future staffing plans? ❑

6 Does the financial forecast reflect the financial implications of the college's accommodation strategy? ❑

7 Does the financial forecast demonstrate that the college's financial objectives are being achieved? If they are not, is this addressed in the commentary? ❑

Statement of key assumptions

8 Does the commentary include assumptions about:

- a. growth in funding units and average level of funding (ALF) ❑
- b. income from the Further Education Funding Council (FEFC) or the Learning and Skills Council (LSC) other than participation element ❑
- c. income from non-FEFC/LSC sources, in particular ❑
  - i. education contracts ❑
  - ii. tuition fees ❑
  - iii. European funds ❑
  - iv. commercial activities ❑
  - v. new deal ❑
- d. implementation of accommodation strategy in terms of:
  - i. capital investment ❑
  - ii. long-term maintenance ❑
  - iii. routine maintenance ❑
- e. increases in the pay bill arising from the effects of pay awards made ❑
- f. changes in national insurance contributions ❑
- g. changes in pension fund contributions ❑
- h. incremental drift. Where incremental scales exist, estimate the incremental gain resulting from staff losses at the high end of the incremental scale being offset by new staff at the lower end ❑
- i. any changes anticipated for the local government superannuation scheme? ❑

9 Does the commentary include the general level of pay awards assumed in the forecast? ❑

10 Does the commentary state any variation to the general inflation rate for specific items of income or expenditure? ❏

11 Does the commentary state the interest rates assumed? ❏

12 Does the commentary state the assumptions underlying income from all sources and all expenditure cuts? ❏

Sensitivity analysis

13 Does the sensitivity analysis deal with:

- shortfalls in recruitment ❏
- tariff changes ❏
- changes to fee structures ❏
- larger than expected pay increases ❏
- higher costs of borrowing ❏
- lack of Council support for capital schemes ❏
- the effect on all income sources? ❏

14 Does the risk analysis reflect the implications of the sensitivity analysis, in particular in the assessment of projected student numbers? ❏

15 Does the commentary identify expenditure that could be shed, if necessary, within the next three years? Is this linked to the contingency plan? ❏

16 Where a reduction in the range of provision is proposed, was this discussed with the Council's regional team? ❏

17 Where the assumptions are pessimistic and likely to push the college towards insolvency, does the commentary set out the contingency measures necessary to restore the situation? Is this also addressed in the strategic plan? ❏

18 Does the commentary include any changes that result from more pessimistic assumptions than those made above? ❏

19 Does the commentary include the results of any changes in capital funding been included? ❏

20 Does the commentary include any remedial action to be taken to moderate the financial effects of more pessimistic assumptions? ❏

21 Does the commentary address all items included in the risk analysis within the strategic plan? ❏

Risk management

22 Has the college attached a risk management plan that is approved by the governing body? ❏

Approval

23 Has the whole governing body approved the forecast? ❏

Self-assessment of financial health

24 Has the governing body made regular assessments of the college's financial health? ❏

25 Has a review of the strategic plan and financial forecast taken place to assess whether the college is able to support its plan with the resources identified? ❏

26 Have the underlying strengths and weaknesses of the college's financial position been examined to assess the extent to which the college is likely to be vulnerable to adverse variances? ❏

27 Does the commentary explain the college's financial health falling in group A, B, or C? ❑

28 Has the college provided reasons in the commentary for its self-assessment of financial health being different to the computed health group? (if applicable) ❑

Supplementary information required in the commentary

Form 1

29 Does the commentary give a detailed explanation of all significant transfers to and from reserves? ❑

30 Does the commentary explain significant year-on-year movements? ❑

31 Does the commentary explain any variances between the latest estimate of out-turn for the current year and the original budget? ❑

32 Does the commentary give the sources of grant income? ❑

33 Does the commentary give the nature of any repayment of European Social Fund (ESF) funding? ❑

34 Does the commentary give the sources of income from franchising provision? ❑

35 Does the commentary give the main income-generating activities? ❑

36 Does the commentary give the names and nature of business of all subsidiary companies? ❑

Forms 2A and 2B

37 Does the commentary give details of any provisions included in expenditure provided? ❑

38 Does the commentary explain large year-on-year movements? ❑

39 Does the commentary give details of any remaining Hunter funds claimed, analysed into priority 1(a) and 1(b)? ❑

40 Does the commentary give details of the anticipated additional costs of implementing curriculum 2000? ❑

Form 3

41 Does the commentary identify significant asset purchases and disposals, including consents and purposes? ❑

42 Does the commentary give the details of any loans, including consents and background? ❑

43 Does the commentary explain significant year-on-year movements in debtors and creditors? ❑

Form 5

44 Has the reconciliation of movements between years been completed? ❑

45 Has the self assessment been completed? ❑

46 Has the budget statement been completed? ❑

47 Has the risk management plan been completed and approved by the board of governors? ❑

48 Has the principal signed the form? ❑

Planned maintenance

49 Does the commentary give details of the college's planned maintenance programme? (if applicable.) ❑

Other information

50 Does the commentary give the name and telephone number of the contact person for all enquiries? ❑

Examples of Financial Objectives Adopted by Colleges

1 The college wishes to remain financially sound so as to:

- protect itself from unforeseen adverse changes in enrolments
- generate sufficient income to enable maintenance and improvement of its accommodation and equipment.

2 The college wishes to maintain, or attain, the confidence of funders, suppliers, bankers and auditors.

3 The college wishes to raise awareness of college staff of the financial environment under which it operates.

4 Specifically these objectives will be achieved by:

a. maintaining a sound financial base (solvency and liquidity):
   - i. we will have a general reserve of XX % of income by 31 July XXXX and YY % by July XXXX
   - ii. we will maintain cash days of XX or more at all times
   - iii. we will achieve break even by 31 July XXXX and operating surplus by 31 July XXXX
   - iv. we will generate a cash inflow from operating activities by 31 July XXXX;

b. improving financial management:
   - i. we will produce management accounts on a monthly basis incorporating an income and expenditure account, balance sheet, 12-month rolling cashflow forecast, staffing information and funding unit information
   - ii. we will strengthen procedures for testing the desirability and affordability of any proposals which have a financial implication by 31 July XXXX
   - iii. we will introduce post-implementation review procedures to assess the success or otherwise of major investments (building, information technology, staffing, marketing, etc) exceeding £XX,XXX by 31 July XXXX;

c. maintaining the confidence of funding bodies, suppliers and professional advisors:
   - i. providing financial and non-financial returns on time and in the agreed format
   - ii. ensuring all returns requiring certification by auditors are unqualified
   - iii. adhering to the college's policy to pay all suppliers within XX days of receipt of an invoice;

d. raising awareness of financial issues:
   - i. providing advice, guidance and training to staff, management and governors on funding, funding methodologies, budgeting and the college's financial procedures
   - ii. providing adequate information to ensure staff, management and governors are kept up to date with the financial position of the college;

e. improving the stock of college accommodation and equipment:
   - i. generating sufficient funds to ensure the college's specified programme of planned maintenance can be undertaken
   - ii. generating sufficient funds to ensure the college can invest in new technology and equipment required to support learning programmes and college administration
   - iii. ensuring adequate procedures are in place to protect assets from loss, theft and neglect.

Suggested Sensitivity Analysis to Financial Forecasts

Risk		*Likelihood*	*Impact*	*Possible loss*	*Contingency plans*	
1	Planned growth not achieved	L	M	£X–Y	a.	reduce staff costs £Y by Z FTEs
					b.	increase income from letting activities £Z
2	Growth not funded	H	M	£X–Y	a.	route through ESF £Y
3	Pay increase higher than anticipated	L	M	£X–Y	a.	extend contract hours to X to save on FTEs £X
4	Capital project costs exceed budget	H	H	£X–Y	a.	renegotiate payment terms
					b.	use existing fixtures rather than replacing £X
					c.	negotiate a fixed price
5	All risks identified in the strategic plan should be addressed					

1 It is useful to consider separately how likely it is that the risk will occur and the seriousness of the impact. If the college is planning to dispose of property and is close to completing a deal there may be a low risk that it will not go through but the impact of the sale falling through on the college and subsequent plans is likely to be high.

2 In drawing up contingency plans to mitigate the effect of the risk, quantify the effect of remedial action. Many plans sent to the Council whilst identifying actions do not quantify them.

3 In the accompanying narrative explain why the likelihood of risk is assessed as high or low.

Calculation of Ratios

Schedule 14A

1 Income Used in Ratio Analysis

Calculation:

Total income, excluding asset transactions (form 1 line 14) less income for payments under section 6(5) of the *Further and Higher Education Act* (the Act) 1992 (form 1 line 10) less release of capital grants (form 1 line 2).

2 Short-term Solvency

a. cash days in hand

Calculation:

Total cash (form 3, line 2(d)) plus current asset investments (form 3, line 2(c)) less bank overdrafts (form 3, line 3a) multiplied by 365 (days) divided by total income (calculated at 1 above);

b. current ratio

Calculation:

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

c. debtors days – excluding the Further Education Funding Council (FEFC) or the Learning and Skills Council (LSC) and Higher Education Funding Council for England (HEFCE)

Calculation:

[other accrued income (schedule 6 line 5) plus prepaid expenditure (schedule 6 line 6) plus trade debtors (schedule 6 line 7) plus other debtors (schedule 6 line 8)] divided by [total income (form 1 line 14) less FEFC/LSC recurrent grant, main allocation (form 1 line 1(a)) less FEFC/LSC recurrent grant, other (form 1 line 1(b)) less release of capital grants (form 1 line 2) less education contracts, higher education (HE) income, HEFCE (form 1 line 3(c)(i)) less income for payments under section 6 (5) of the Act 1992 (form 1 line 10) less interest receivable (form 1 line 13)] multiplied by 365 (days);

d. creditors days - non-pay expenditure

Calculation:

Trade creditors (form 3 line 3(d)) divided by [total non-pay expenditure (form 2A line 18) less other interest payable (form 2A line 16) less depreciation (form 2A line 14)) less payments made under section 6(5) of the Act 1992 (form 2A line 11) less interest on SSAP 24 provision (form 2A, line 15)] multiplied by 365 (days);

e. quick ratio

Calculation:

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

3 Ability to generate cash

a. cash generated from operations to income

Calculation:

Net cash inflow/(outflow) from operating activities (form 4 line 1) divided by income (calculated at 1 above).

4 Indebtedness

a. debt charges as a percentage of income

Calculation:

Repayment of amounts borrowed (form 4 line 6(c)) plus repayment of local education authority (LEA) deficit loan (form 4 line 6(d)) plus interest paid (form 4 line 2(b)) plus interest element of finance lease rental payments (form 4 line 2(c) divided by income (calculated at 1 above);

b. total borrowing as a percentage of income

Calculation:

Bank overdraft (schedule 7 line 1(a)) plus total loans (schedule 7 line 1(b)(viii)) plus total LEA deficit loan (schedule 7 line 2(f)) divided by income (calculated at 1 above);

c. total borrowing as a percentage of total reserves

Calculation:

Bank overdraft (schedule 7 line 1(a)) plus total loans (schedule 7 line 1(b)(viii)) plus LEA deficit loan (schedule 7 line 2(f)) divided by total reserves (form 3 line 14) less revaluation reserve (form 3 line 10).

5 Reserves

a. surplus/(deficit) as a percentage of income

Calculation:

Surplus/(deficit) after tax, excluding asset transactions (form 1 line 16 (b)) divided by income (calculated at 1 above);

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

Calculation:

Historical cost surplus/(deficit) (form 1 line 20) divided by income (calculated at 1 above);

c. available reserves as a percentage of income

Calculation:

Income and expenditure account (form 3 line 13) plus designated reserves (form 3 line 12) divided by income (calculated at 1 above);

d. reserves as a percentage of income

Calculation:

Total reserves (form 3 line 14) less revaluation reserve (form 3 line 10) divided by income (calculated at 1 above).

6 Average level of funding (ALF)

a. value taken from schedule 1a line 14

Schedule 14B

1. Income

a. year-on-year increase – income

Calculation:

Total income as calculated in schedule 14 (form A, line 1), divided by (total income for previous year) minus 100%;

b. growth in units

Calculation:

(total units (schedule 1a line 1)) divided by (total units for previous year) minus 100%;

c. dependency on FEFC/LSC income

Calculation:

[FEFC/LSC recurrent grant, main allocation (form 1 line 1(a) plus FEFC/LSC recurrent grant, other (form 1 line 1(b) plus former TEC income (form 1, line 1c)] divided by income (schedule 14A line 1);

d. dependency on European income

Calculation:

Grant income European funds ((form 1 line 5(a) minus form 1 line 5(a)(i)) divided by income (schedule 14A line 1));

e. dependency on higher education income

Calculation:

Higher education income (form 1 lines (3c)(i)) plus (3c)(ii)) plus tuition fees and charges (form 1 line (4c)) divided by income (schedule 14A line 1);

f. dependency on training and enterprise council (TEC) income

Calculation:

Education contracts; TEC (form 1 line 3(b)) divided by income (schedule 14A line 1);

g. dependency on other income

Calculation:

All other income not included in the above income ratios (Form 1, lines 3(a), 3(d), 3(e), 4(a), 4(b), 4(d)(i), 4(d)(ii), 5(b), 6 to 9 (inclusive) and 11 to 13 (inclusive)) divided by income (schedule 14A line 1);

h. surplus/(deficit) on franchised provision

Calculation:

Franchised provision (schedule 1a, line 20) multiplied by the ALF (schedule 1a, line 14) multiplied by London weighting factor (schedule 1a, line 13) less franchised provision costs (form 2a, line 12) less franchised provision costs (form 2b, line 11);

i. surplus/(deficit) on catering and residences

Calculation:

Catering and residences income (form 1 line 8) minus catering and residences expenditure (form 2A line 9 plus form 2B line 9);

j. surplus/(deficit) on other income-generating activities

Calculation:

Other income-generating activities income (form 1 line 7) minus other income-generating activities expenditure (form 2A line 8 plus form 2B line 8);

k. surplus/(deficit) on farming

Calculation:

Farming income (form 1 line 9) minus farming expenditure (form 2A line 10 plus form 2B line 10).

2 Expenditure

a. pay expenditure as a percentage of income (including contract tuition services)

Calculation:

Total pay before restructuring (form 2B line 14) divided by income (schedule 14A line 1);

b. pay expenditure as a percentage of income (excluding contract tuition services)

Calculation:

Total pay before restructuring (form 2B line 14) minus contract tuition services (form 2B line 13) divided by total income (schedule 14A line 1);

c. permanent payroll proportion

Calculation:

Permanent staff expenditure (schedule 10 line 1) divided by total payroll expenditure (schedule 10 line 5);

d. year-on-year increase – pay expenditure

Calculation:

Total pay expenditure before restructuring (form 2B line 14) divided by (total pay expenditure before restructuring for previous year) minus 100%;

e. administration costs proportion

Calculation:

Total admin costs (form 2A, line 4 plus form 2B line 4) divided by total expenditure (form 2B line 18);

f. year-on-year increase – non-pay expenditure

Calculation:

Total non-pay expenditure (form 2B line 17) divided by (total non-pay expenditure for previous year) minus 100%;

g. premises cost per square metre

Calculation:

Premises costs [Non-pay expenditure (form 2A lines 6(a) running costs, 6(b) maintenance and 6(c) rents and leases) plus pay expenditure (form 2B lines 6(a) running costs and 6(b) maintenance)] multiplied by 1000 divided by total college area (input by college at form 2A, line 19)).

3 Other

a. trading ratio

Calculation:

Total income as defined above, divided by total reserves (form 3 line 14);

b. average cost per teaching post

Calculation:

Teaching departments; teaching staff (form 2B line 1a) divided by number of teaching staff (FTEs) (input by college at form 2B, line 19));

c. average cost per non-teaching post

Calculation:

Total pay expenditure before restructuring (form 2B line 14) minus teaching departments; teaching staff (form 2B line 1(a)) minus contract tuition services (form 2B line 13) divided by number of non-teaching staff (FTEs) (input by college at form 2B, line 20);

d(i) staff costs per student (FTE): teaching

Calculation:

Teaching departments; teaching staff (form 2b, line 1a) plus contracted out tuition costs (form 2b, line 13)) divided by ((forecast students FTEs 16-18 full time (schedule 1a, line 19a) plus forecast students FTEs, other (schedule 1a, line 19b);

d(ii) staff costs per student (FTE): non-teaching

Calculation:

Total pay expenditure before restructuring (form 2B line 14) minus contracted tuition services (form 2B line 13) minus teaching departments; teaching staff (form 2B line 1(a)) divided by (forecast students FTEs 16-18 full time (schedule 1a, line 19a) plus forecast students FTEs, other (schedule 1A, line 19b);

e. number of students (FTEs) per teaching staff (FTEs)

Calculation:

Forecast FTEs 16-18 full time (schedule 1a, line 19a) plus forecast FTEs other (schedule 1a, line 19b)) divided by (number of teaching staff (FTEs) (form 2b, line 19);

f. total cost per student (FTEs)

Calculation:

Total expenditure (form 2b, line 18)) divided by (forecast FTEs 16-18 full time (schedule 1A, line 19(a)) plus forecast FTEs other (schedule 1A, line 19(b)).

Guidance on Downloading Documents from the Council's Website

Guidance on downloading documents from the Council's website has been removed for technical reasons relating to the number of users with different software applications for whom the guidance would not apply.

The files referred to in this circular can be downloaded from the Council's website at http://www.fefc.ac.uk/strategicplans

Institutions are reminded that they should return 2 copies on their strategic planning information to Richard Jewkes at the Council's Coventry office by **31 July 2000**.

Confidentiality responses should be returned to Paul Stowe at the Council's Coventry office by **14 July 2000**.

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