
7 June 1999

CIRCULAR

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

**Strategic Plans Including
Financial Forecasts**

Cheylesmore House
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To

Principals of colleges
Chief education officers
Heads of external institutions
Institutions receiving Council funds

Circular type

Request for information

Summary

Provides guidance on strategic
planning and financial forecast
information requested by
31 July 1999

Reference number: 99/25
Supersedes: 98/16

Enquiries:
Regional directors
Financial returns support desk
01203 863065
Website <http://www.fefc.ac.uk>

99/25

Strategic Plans Including Financial Forecasts

Introduction

1 This circular provides guidance to institutions on the strategic planning information that the Council wishes to receive by 31 July 1999. For colleges, this includes the request for supporting financial forecast information.

Background

2 The Council is currently consulting the sector on the strategic planning framework for colleges for 2000 and beyond. In the light of that exercise the request for information by 31 July 1999 has been changed as little as possible and where appropriate eliminated. Following the changes to the funding timetable, whereby student number information was returned in April 1999, the routine request for student number information in July 1999 has been removed. However, institutions are reminded of the need to notify the Council of significant departures from their strategic plan at any time during the year (annex C, Circular 98/16). In the case of some institutions the regional team may request a strategic plan update.

3 Whilst the Council would normally seek to ask colleges to prepare three-year financial forecasts at the same time as other strategic planning information, it was felt that to ask for a return to be prepared in April, at relatively short notice in 1999, would be unreasonable. However, the possibility of doing so in future years is considered in the strategic plans consultation.

4 Due to the change in funding made available to the sector compared to the basis on which forecasts were prepared in 1998 it is important that a revised three-year forecast is prepared so that the effect on the financial health of the sector can be considered. Hence, on this occasion, financial forecasts are being requested in isolation. The timing of future requests will be determined following the Council's consideration of the responses to the strategic planning consultation.

Forecasting Assumptions 1998-99 to 2001-02

5 I am asking colleges to make forecasts on the basis of the comprehensive spending review as set out in Roger Dawe's letter of 8 December 1998. This is explained further in annex A.

6 The Council expects forecasts to be prepared on a realistic basis, taking account of the forecasting assumptions suggested in annex A, although colleges will no doubt wish to consider their forecasts on a worst-case scenario. The worst-case scenario should be considered in the sensitivity analysis (see paragraphs 5 to 10 of supplement A for guidance). The sensitivity analysis should also address more favourable outcomes than those included in the forecast, where appropriate.

Information Requested in July 1999

7 In line with the Council's regional focus, all information should be returned to regional directors at the appropriate regional office. Addresses and telephone numbers for regional offices appear at annex C. The information requested from institutions in July 1999 is outlined below. All institutions should complete and return a signed copy of the cover sheet provided at annex B. For the majority of external institutions and higher education institutions this is expected to be a nil return as a financial forecast is not required for these institutions.

Strategic planning

8 The regional team is likely to request an update to the strategic plan in the following instances:

- a change in the institution's mission, which might include plans for merger or rationalisation of provision in a particular geographical area
- an arrangement which includes collaboration or partnership activities regarding delivery with another provider
- a significant change in the volume of provision and/or the arrangements for its delivery, including large-scale conversion of franchising to direct provision

-
- colleges assessed as requiring additional or exceptional support under Circular 98/12, *The Council's Approach to Identifying Colleges Requiring Additional Support*.

9 Where the Council wishes to request an update regional directors will notify colleges by 4 June 1999.

Three-year financial forecast

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

Format

11 The format of the forecast in 1998-99 is essentially the same as that provided to the Council in previous years. Changes from last year's forecast are detailed in section 2 of supplement A to this circular. In particular, colleges should note that schedule 1 has been split into schedule 1A on the allocation for participation and schedule 1B on subsidiary allocations of Council funding.

12 The computer-based application for returning the forecast is being sent to colleges on disk, together with guidance notes on its use. Completed disks should be returned to your regional office with a complete hardcopy of the printout, the signed principal's certificate, and a commentary on the forecast by 31 July 1999.

Guidance

13 The Council's regional finance directors are holding a series of surgeries in June and July 1999 for colleges seeking advice on how to complete their forecasts. Colleges will be informed by separate letter of the arrangements for the surgeries. Institutions which require further clarification, or which for whatever reason cannot provide the information requested by 31 July 1999, should contact their regional office at the earliest opportunity. For advice on how to complete the

financial forecast returns disk, please contact the financial returns help desk on 01203 863065.

Information Requested Beyond July 1999

College accommodation strategies

14 Colleges will be asked to supply key statistical data in relation to their accommodation strategy each year and fuller information only where substantial changes have occurred. The format of the information requested and the date of the return will be outlined in a summer circular following the outcomes of the strategic planning consultation.

College financial mid-year update

15 The mid-year update was previously requested in February of each year. This will no longer be requested for all colleges. Where the Council wishes to receive this information, it will be requested by the relevant regional finance director. This will generally be for those colleges falling into financial health group C (as assessed by the Council). In any event, those colleges where a return is required will be notified by 7 January 2000. The software application for returning this information has been included on the financial forecast disk. Guidance on the completion of the mid-year update can be found at section 4 to supplement A.

Finance record

16 The finance record shows actual figures for income and expenditure, cashflow and the balance sheet. These data will be in a format similar to the three-year financial forecast. The financial position shown in the finance record should be the same as in the audited accounts. If there are any material differences between the actual figures for the financial year and the estimate of the figures provided at the end of the year in the three-year financial forecast, colleges are asked to provide a brief commentary explaining the difference.

17 A computer application for the finance record can be found on the disks accompanying this circular. Colleges are asked to return the finance record data to the appropriate regional office with the audited accounts on or before 31 December 1999.

18 Data published by the Council, for example in the annual college accounts circular, will be taken from the finance record and not the hardcopy audited accounts.

19 The dates for receipt of returns are as follows:

<i>Return</i>	<i>Date</i>
Financial forecast 1998-2002	31 Jul 1999
Strategic plan update*	31 Jul 1999
Finance record 1998-99 with audited annual accounts	31 Dec 1999
Mid-year financial forecast update 1999-2000*	28 Feb 2000

* where requested

David Mewill

Forecasting Assumptions 1998-99 to 2000-01

1 When considering the level of FEFC income to include in financial forecasts, colleges should consider the outcome of the comprehensive spending review as set out in Roger Dawe's letter of 8 December 1998. This letter sets out funding for 1999-2000 and 2000-01 and it is suggested that the Council should plan on the basis that funds for further education available in 2001-02 will be at least the same in real terms as in 2000-01. Colleges should plan on this basis.

2 A summary of the funds made available to the sector, as at February 1999 is set out in table 1.

Table 1. Funding available in financial years 1999-2000 to 2000-01

	<i>1999-2000</i>	<i>2000-01 planned</i>
	<i>£m</i>	<i>£m</i>
Total	3,312	3,502
of which:		
Participation (excl. employers' fees)	3,237	3,367
FE standards fund	35	80
Capital	40	55
of which:		
IT infrastructure	12	20
Rationalisation capital works	7	7
Capital (WP, skills agenda and disabled access)	21	28
Employers' fees (including £20 m in 1998-99) (assumed to continue)	55	80
New post-16 partnership fund	25*	
Former section 11 grant	2	2
Student financial support		
FE access	36	38
Childcare	5	7
Residential students	5	10
Funds for crèche provision	5	7
Revenue funds from rationalisation fund	9	7

* over 3 years

3 The Council has also made funds available for the areas of activity shown in table 2.

Table 2. Additional funds made available

	<i>1999-2000</i>
	<i>£m</i>
Non-schedule 2 funds	10
Basic skills schools	5
Ufi precursors/individual learning accounts	6

4 Roger Dawe's letter of 8 December included the targets shown in table 3 for full-time equivalent (FTE) student numbers to be achieved by the sector.

Table 3. Planned FTE student numbers (000s)

	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>
16-19	501	518	529
Adults	564	589	613
Total	1,065	1,107	1,142

5 The figures in table 3 represent the total number of students in each financial year, not the growth in student numbers each year.

Participation (main and growth allocation)

6 The guidance in Circular 99/07 should be followed in forecasting the main and growth allocations. The key points to consider are set out in paragraphs 7 to 14.

Convergence

7 The secretary of state's guidance states that final convergence of average levels of funding (ALFs) should be delayed and, as the funding for 2001-02 has yet to be confirmed, the Council has decided there should be a convergence zone of £17.00 to £17.20 by 2001-02. The Council will determine the final convergence figure when the funding for 2001-02 is known. Convergence up to 2000-01 will be implemented as follows:

- colleges with an ALF below £17.00 will move to an ALF of £17.00 in 2000-01 in two equal steps (subject to a minimum of £16.60 in 1999-2000)

- for forecasting purposes those colleges should assume an ALF of £17.00 for 2001-02
- colleges with an ALF between £17.00 and £17.20 should assume that it will remain constant throughout the forecasting period
- colleges with an ALF above £17.20 should assume that their ALF will fall to £17.20 in 2001-02 in three equal steps.

Franchising

8 The Council has consulted the sector on the proposal to reduce by one-third the units associated with franchised provision other than that for widening participation students and community-based provision which is normally with non-profit-making bodies. It is expected that the results of that consultation will be published by June 1999. In the interim, colleges should assume that this proposal will be implemented. For planning purposes colleges will need to set their own definition of community-based provision; regional offices will be able to provide advice. In the sensitivity analysis to the forecast, colleges should address the potential consequences for the college if this definition is not accepted. In addition, colleges are not expected to take out new contracts or increase student numbers associated with franchised provision outside a college's local recruitment area.

Targeted growth

9 As part of the participation allocation, funds will be available for 1999-2000 for the following purposes:

- additional 16–18 year-old full-time students
- additional growth for adults.

Growth allocation 16–18 year-old students

10 The Council wants to encourage institutions to increase the number of 16–18 year-old students for whom they provide, particularly in those groups that have not traditionally taken part in further education. Institutions should take account of the work of their lifelong learning partnerships, or similar projects, to make sure there is no wasteful competition.

11 Growth for 16–18 year olds will be in three parts:

- a fixed percentage growth in the units related to 16–18 year olds
- growth based on local demographic growth and the institution's recruitment of 16–18 year olds in 1998-99
- a variable percentage linked to the participation rate in the institution's local area.

12 Colleges will have received their provisional allocation for 1999-2000. For forecasting purposes colleges should assume as a maximum an equivalent level of growth in 2000-01 and 2001-02. Where colleges consider that the local market indicates that they will achieve a lower level than forecasts should be based on that lower level.

13 The growth funding available for adults is in two parts: increasing participation and widening participation. The first part will be based on the institution's existing number of units associated with provision for adults. This is intended to increase participation in the population as a whole. The second part will also take into account each institution's widening participation factor.

London weighting

14 Revised London weighting factors were implemented by the Council for 1998-99. The factors for future years will be reviewed by the tariff advisory committee (TAC) as part of the comprehensive review of institutional and geographical factors. Institutions in receipt of London weighting should assume that the 1998-99 factors will continue to apply.

New arrangements for support for further education students

Further education (FE) access fund

15 There will be a transformation of the existing FE access fund into a much larger scheme for FE students, including extension to 16–18 year olds.

16 The increased FE access fund will continue to be administered by the Council, which will provide an allocation to individual colleges together with guidance, agreed with the DfEE, on the use of the fund. The access funds working group will advise on new funding and assist with monitoring.

17 The DfEE will be working with the Council, colleges and other interested parties such as the National Union of Students and Association of Colleges on the increased access fund, policy and coverage. The Council's access funds working group met in February to seek ideas and advice on the best use of funding. The DfEE will also draw on the recent research into student support and participants and non-participants. The DfEE expects to issue guidance to the Council on the use of the access fund for 1999-2000 in May 1999. The Council expects to allocate the fund in June.

18 The sum allocated for the access fund for the period 1999-01 is £74 million, of which £36 million is available in 1999-2000.

19 For forecasting purposes colleges should assume that their allocation of funds for 1999-2000 will roll forward to 2000-01 and beyond.

Childcare

20 There will be an increase to the existing Council funding available to colleges in support of childcare for students on low incomes.

21 The proposal to support funding for childcare is being taken forward with the Council and in the context of the national childcare strategy. Funding will be administered by the Council and colleges. The aim is to target funding specifically on childcare costs, but without setting up another scheme requiring colleges to prepare bids. It was decided that the most logical step was for an addition to the existing funding available to provide free childcare places through the tariff.

22 The scheme will be administered by the Council. The childcare arrangements will build on the existing Council provision for colleges to claim additional funding units for targeted childcare assistance. The sum allocated for childcare assistance for the period 1999-01 is £12 million (£5 million in 1999-2000).

23 For forecasting purposes, colleges should assume that their allocation of funds for 1999-2000 will increase by 40% in 2000-01. The funds for childcare will be allocated through the tariff for 1999-2000. Final allocations for 1999-2000 will be made in June and July.

Residential students

24 Additional funds will be available so that colleges dependent on residential students can pay bursaries in respect of lodging costs for certain students.

25 The government has allocated £15 million for the period 1999-01 towards the cost of recruiting residential students of which £5 million is available in 1999-2000. This will be allocated to eligible colleges in proportion to full-time student numbers on certain specialist courses.

26 For forecasting purposes colleges should assume that allocations for 2000-01 will be double those in 1999-2000. It is expected that the 1999-2000 allocation will be made before colleges need to submit their financial forecasts.

Standards fund

27 A standards fund has been established for further education with £35 million available for distribution in 1999-2000, rising to £80 million in 2000-01. The standards fund will be used in support of four key activities:

- first and foremost: targeted intervention in colleges causing concern notably those demonstrating poor performance against key indicators; and in addition
- post-inspection support for other colleges as appropriate
- training for existing and potential college principals, and continuing professional development for lecturers
- dissemination of best practice.

Colleges gaining accreditation status in 1999-2000 will receive £50,000 from the standards fund.

IT

28 The Council has agreed expenditure priorities for the £74 million available for the development of IT infrastructure over three years. These are detailed in *Council News* No. 51.

29 Colleges may wish to make assumptions about receipt of funds for IT. In the sensitivity analysis to the financial forecast they should consider the potential consequences of not receiving these funds.

Capital

30 Colleges will continue to be invited to apply for capital project support. It is anticipated that, from 1999-2000 onwards, this will be payable as a sum of £50,000 plus 35% of eligible project costs over £100,000 and payable over three years.

31 In preparing their forecast colleges may assume receipt of capital project support, but in the sensitivity analysis they should address the potential consequences of not receiving support.

Post-16 partnership fund

32 The partnership fund will be administered by government offices and comprises two elements:

- a support element to help to establish and maintain learning partnerships
- an action element which will fund local collaboration activity to increase participation and achievement focused on 16–19 year olds.

33 Colleges may wish to make assumptions about receipt of partnership funds. In the sensitivity analysis to the financial forecast they should consider the potential consequences of not receiving these funds.

Former section 11 grant

34 Colleges should assume that for 1999-2000 existing projects will continue to attract funding at the rate paid in 1998-99. Criteria for allocating funds will be reviewed for 2000-01 onwards. Colleges should not assume that existing programmes will continue to attract funds after 1999-2000 nor that their institution will be eligible for any funding from 2000-01.

Crèche provision

35 Allocation of these funds will be based on bids from colleges working in partnerships. It is anticipated that colleges will know whether their bids have been successful by the time the forecasts are required to be sent to the Council.

Rationalisation fund revenue

36 For the two year period 1999–01, two categories of project will be eligible for support from the fund, as follows:

- a. category (1) – projects intended to lead to a merger between:
 - i. further education colleges
 - ii. further education sector colleges and providers outside the sector which are involved primarily with the delivery of further education (for example, external institutions, specialist institutions and tertiary reorganisations);
- b. category (2) – projects resulting in rationalisation of further education colleges.

37 Revenue support will be available for activities such as: feasibility studies, due diligence reviews, consultants' fees, staff restructuring (in the case of mergers between further education colleges) and other activities which would normally be charged to the income and expenditure account.

38 For forecasting purposes colleges should assume that any realistic bids will be successful but in the sensitivity analysis they should address the potential consequences of the bids not being successful.

Rationalisation fund capital

39 Bids will be invited for capital projects under the categories above. For forecasting purposes colleges should assume that any realistic bids will be successful but in the sensitivity analysis they should address the potential consequences of the bids not being successful.

Non-schedule 2 provision

40 The Council will be funding a number of pilot projects to develop non-schedule 2 provision for 1999-2000. Applications will be invited from established lifelong learning partnerships to develop innovative learning programmes for disadvantaged adults. These programmes are to be delivered in the 1999-2000 teaching year. The Council has set aside £10 million in 1999-2000 to support additional non-schedule 2 provision.

41 Colleges may wish to make assumptions about receipt of funds for pilot projects. In the sensitivity analysis to the financial forecast they should consider the potential consequences of not receiving these funds.

University for Industry

42 Colleges should assume that students funded under Ufi schemes should attract the same level of funding as Council-funded students.

Inflation

43 HM Treasury has estimated that the gross domestic product (GDP) deflator, a measure of inflation, over the years 1998 to 2002 will be 2.5% each year. Colleges should use this estimate in calculating movements in the cost of non-staff items unless they have better information about the specific price changes that will affect them.

Pay costs

44 Colleges should continue to make their own decisions on pay awards based on the college's individual circumstances.

European funding

45 Existing European Union programmes come to an end in 1999. The European Commission is working on proposals for the allocation of funds from 2000-01 onwards. Colleges should not assume that they will be eligible for funds until the actual guidance is available.

Tuition fees

46 In order to assist the Council in monitoring achievement of targets for employer contributions colleges are asked to record separately tuition fees for employer-led provision and, as a subset of this, fees for dedicated employer provision. The fees to include in these headings are those 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)
- Q09 major source of tuition fees as employer code (3)
- Q13 outward collaborative provision arrangements codes (22) and (23).

Cover Sheet for Return of Strategic Plans (Financial Forecasts): July 1999

(Reference Circular 99/25)

This cover sheet must be completed by all institutions. Please photocopy, complete and return to the regional director at the appropriate office by 31 July 1999.

Name of institution (*please print*)

FEFC code

Contact for financial forecast queries

Telephone no.

**THE
FURTHER
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COUNCIL**

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Returns enclosed (*please tick*)

- | | | |
|-----------------------|---------------------------------|--------------------------|
| Financial forecasts | three-year forecast | <input type="checkbox"/> |
| (one copy of each) | principal's certificate | <input type="checkbox"/> |
| | disk | <input type="checkbox"/> |
| | commentary | <input type="checkbox"/> |
| Strategic plan update | | |
| | as requested by regional office | <input type="checkbox"/> |
| | optional | <input type="checkbox"/> |
| | nil return | <input type="checkbox"/> |

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