

Financial Planning Handbook 2010 to 2013

June 2010

This Handbook is of interest to principals and chief executives of colleges, finance directors at colleges, financial statements auditors, directors of funding bodies, local authorities and other key organisations in the learning and skills sector.

In partnership with



For action: Responses are requested by 31 July 2010

Planning

Colleges: Financial Plans 2010 to 2013

Summary

The Financial Planning Handbook sets out guidance on financial planning information that the Skills Funding Agency, Young People's Learning Agency (YPLA) and local authorities wish to receive by 31 July 2010 from colleges. Production of the Handbook has been a joint exercise involving the College Finance Directors Group (CFDG), the Association of Colleges (AoC), the Skills Funding Agency and the YPLA.

Colleges should approve an annual budget before the start of each financial year (1 August). This should be the first year of colleges' three-year financial plans. To assure that this is done and to provide the fundamental basis for monitoring colleges' financial health, an updated Handbook is now issued.

This document is an executive summary of the key content of the Handbook, which comprises eight individual chapters.

Intended recipients

Although this Handbook will be of interest to all providers, only colleges are required to provide three-year financial plans to the Skills Funding Agency or YPLA/relevant local authority.

Status

For response by 31 July 2010

Supersedes

Financial Planning Handbook 2009 to 2012

June 2010

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For further information, please contact the appropriate funding body

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- **South** pfm south@skillsfundingagency.bis.gov.uk
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YPLA web address: afm@ypla.gov.uk

Executive Summary

Date: June 2010

Subject: Financial Plans 2010 to 2013

Intended recipients: Principals and chief executives of colleges, finance directors of colleges directors of funding bodies and local authorities.

Status: For information and response.

This Handbook updates the guidance issued in the Financial Planning Handbook 2009 to 2012. The Handbook consists of:

- This document - which sets out the submission requirements and the frameworks of associated commentaries
- seven detailed Handbook chapters

Main changes:

- All assumptions updated for 2010
- Updating references to the LSC to its successor bodies in light of the Machinery of Government changes effective from the 1 April 2010

Date of response: Returns should be submitted to the appropriate funding body no later than 31 July 2010.

Financial Plans 2010 to 2013

Introduction

1 Following the approval of the Apprenticeships, Skills, Children and Learning Act the Learning and Skills Council (LSC) was dissolved and two successor organisations set up in its stead:

- The Young People's Learning Agency (YPLA) is a non departmental public body sponsored by the Department for Education, with the mission of championing education and training for young people in England; and
- The Skills Funding Agency, an agency of the Department for Business, Innovation and Skills and is responsible for funding education and training for adults.

With the introduction of these Machinery of Government changes with effect from 1 April 2010, the funding arrangements and oversight roles have changed. There are currently 93 Colleges who are now formally designated as Sixth Form Colleges under the Initial Sixth Form College Corporation Designation (England) Order 2010. Financial monitoring of those Sixth Form Colleges will, from the 1 April 2010, be the responsibility of the relevant local authority, with the YPLA providing a supporting role. Responsibility for the remaining Colleges which do not designate as Sixth Form Colleges will transfer to the Skills Funding Agency.

This Financial Planning Handbook uses the following convention when describing the various arrangements:

- "LSC" or "FEFC" where there are historic arrangements that have continuing relevance
- "appropriate funding body" to cover the YPLA, Local Authorities and Skills Funding Agency
- "Learning and Skills Council (LSC) and its successor bodies" to encompass situations where procedures were initiated before 1 April 2010 and then taken forward by one or more of the new agencies

2 The purpose of this Handbook is to provide guidance to colleges on the financial planning information that the appropriate funding bodies wish to receive by 31 July 2010.

3 In publishing this guidance, the Skills Funding Agency and YPLA have consulted with the College Finance Directors Group (CFDG) and the Association of Colleges (AoC).

Financial plans

4 The LSC's successor bodies are required to monitor the financial health of providers. In addition to this formal requirement, funding bodies assess colleges' financial health to understand the degree of risk they may represent if they do not have the financial resources to continue operating.

5 When a college ceases to operate, or there is a significant deterioration in its financial position, funding bodies face the risks of:

- learners suffering when their learning provision is disrupted or terminated
 - being unable to recover any funds owed to it by the college (for example, funds paid on profile in excess of learning provided at the time learning ceases).
- 6 Both risks could compromise the funding bodies' statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, assurance is sought to ensure that the college has the necessary financial resources to:
- remain able to operate throughout the life of its funding agreements
 - fully discharge its obligations under those funding agreements
- 7 The two key financial documents used to seek this assurance are the college's three-year financial plan and the college's financial statements. The guidance and submission requirements for the three-year financial plan are provided in this Handbook, while the guidance on the completion of the financial statements is provided in the Accounts Direction Handbook.
- 8 The three-year financial plan should be an integral part of each college's own strategic and development plans, as it expresses in financial terms the cost of implementing those plans and shows the income and expenditure associated with projected levels of activity. The financial plan is intended to help each college's governing body and its funding body to assess the financial effect of a college's strategic and development plans. It is important to include in the financial plan the costs of implementing the college's property strategy for the plan period, to the extent this has been approved. Further guidance on this is included in chapter 3 of the Financial Planning Handbook.
- 9 Colleges are reminded that the governing body should approve financial plans, and that budgets for 2010/11 should be approved before 1 August 2010.

Information requested in July 2010

- 10 One copy of the documents in Table 1 must be returned to the appropriate funding body no later than 31 July 2010.

Table 1: Summary of information requested by 31 July 2010

	General FE colleges	Sixth Form colleges	Submission to:
Provider financial plans			
Three-year financial plan electronic version	✓		Skills Funding Agency – Coventry pfm@skillsfundingagency.bis.gov.uk
Three-year financial plan and commentary – paper copy and electronic version	✓		Appropriate Agency Division: pfmnorth@skillsfundingagency.bis.gov.uk pfmcentral@skillsfundingagency.bis.gov.uk pfm south@skillsfundingagency.bis.gov.uk
Three-year financial plan and commentary – paper copy and electronic version		✓	Relevant local authority
Three-year financial plan – electronic version		✓	YPLA at afm@ypla.gov.uk

11 Where colleges are planning to merge after the deadline for the receipt of the financial plans, then all parties must still submit a copy of their three-year financial plan. If the merger is occurring before or on 31 July 2010 then the appropriate funding body should only receive a copy of the merged college's financial plan by the required deadline of 31 July 2010.

12 Where a college is developing a strategic recovery plan and cannot provide a reliable three-year financial plan at 31 July 2010, then it may seek consent from the appropriate funding body to provide a financial plan for only the first two years (the first year will show the expected out-turn and the second year will be the budget which must be in place prior to start of financial year.) This shortened financial plan must be submitted to the appropriate funding body by the required deadline of 31 July 2010.

13 Colleges that need further clarification should contact the appropriate funding body at the earliest opportunity.

14 The financial planning template is available to download from the any of the following websites:

<http://skillsfundingagency.bis.gov.uk/funding/financialmanagement/financialmanagement/>

<http://www.ypla.gov.uk>

http://www.aoc.co.uk/Members/funding_finance/cfrp/cfrp/

2: Financial Planning Handbook

Objectives

- 15 The Handbook has been prepared in light of the following objectives, to:
- be a one-stop document that colleges can refer to when completing their financial plans
 - readily accommodate changes in generally accepted accounting principles issued by the Accounting Standards Board and other guidance issued by the LSC's successor bodies
 - cut down on bureaucracy, in that the LSC's successor bodies will stop publishing financial planning documents in hard copy if they have not changed.

Format of the Handbook

- 16 The Handbook has the following contents:
- amendments record list
 - monitoring the financial health of providers
 - financial planning assumptions 2010/11 to 2012/13
 - commentary to the plan
 - trend analysis (taken from college finance records) 2005/06 to 2008/09
 - financial plan template (Excel spreadsheet)
 - guidance on completing the financial plan template
 - links to key documents on the Internet

Financial planning assumptions 2010/11 to 2012/13

- 17 Neither the Skills Funding Agency or the YPLA are in a position to provide guidance on assumptions to use in financial plans in this handbook. The AoC may separately suggest possible approaches, but colleges will make their own decisions as to the most realistic assumptions to use. Colleges will also wish to consider their financial plans on a worst-case scenario basis. The worst-case scenario should be considered in a sensitivity analysis. The sensitivity analysis should also address more favourable outcomes than those included in the financial plan, where appropriate. The college's sensitivity analysis is expected to form an integral part of the college's risk management plan.
- 18 Colleges should complete schedule 6 of the financial planning template to state their key assumptions. It is not mandatory for the supporting commentary to contain a statement of key assumptions, however colleges are advised to use the commentary to clarify the assumptions used.

Commentary to the plan

- 19 The commentary to the financial plan is an important component of the return and should demonstrate clearly how the financial plan is consistent with the college's own strategic plans.
- 20 Colleges should discuss the risks inherent in their plans and consequent contingency planning with the appropriate funding body. To provide evidence of the robustness of the financial and risk management plans, the commentary should identify what actions have been agreed in this respect and their financial implications.

Benchmarking

- 21 Since 2004/05, the LSC has published a spreadsheet containing data from the vast majority of college finance records. A copy of the 2008/09 spreadsheet can be downloaded from the Skills Funding Agency's website:

<http://skillsfundingagency.bis.gov.uk/funding/financialmanagement/financialmanagement>

- 22 The LSC's successor bodies wish to publish better benchmarking on colleges' financial plans. It has been recommended by the CFDG that this could be done through publishing individual college financial plans. Therefore, line 10 of the Principal's Statement was amended in 2006 to include the words: "I agree that the data listed within this financial plan may be published by the LSC".
- 23 Chapter 5 of the Handbook provides some trend analysis between 2005/06 and 2008/09 for some key ratios. It is hoped that colleges will find this benchmarking material useful when preparing their financial plans.

Financial plan template

- 24 Following discussions with representatives of the CFDG, the LSC made significant changes to the financial plan template in 2006 including the introduction of a 10-year financial plan, five new capital schedules and a help facility within the template. Whilst no significant changes have been made to either the structure or content of the template for 2010, the funding bodies are committed to further improving the financial plan template for subsequent years to ensure that, as far as possible, it is further simplified and more user-friendly.
- 25 This financial plan template must be completed for the following:
 - capital project applications
 - reorganisations, such as college mergers
 - recovery plans
 - borrowing consent requests
 - the financial consequences of the college's strategic and development plan (submission date 31 July each year).
- 26 If colleges need to complete less than 10 years in the financial plan, then they should hide the respective columns in each worksheet. Where a college cannot hide a column, then it should amend the print area so that only the period that is being reported is printed.
- 27 The templates are available on the websites listed at paragraph 17 above as Excel workbooks. Completed plans should be submitted in line with the table at paragraph 13 above.

28 A list of regional Skills Funding Agency contacts is set out below:

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The YPLA Assurance and Financial Monitoring team can be contacted via:
afm@ypla.gov.uk

29 For further advice on how to complete the financial plan template, or any other matters associated with this Handbook, colleges should contact their appropriate funding body.

3: Other Guidance

Principal's Statement in the financial plan

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

Risk management and disaster management plans

- 31 The LSC published guidance for risk management planning to allow colleges to comply with the Turnbull Report on the Combined Code of Corporate Governance.

This guidance is available at:

<http://readingroom.lsc.gov.uk/pre2005/funding/providers/circular0405-fecolleges-financialplansandriskmanagement.pdf>

- 32 Colleges are not required to submit copies of their risk management and disaster management plans with their 3-year financial plan, however colleges are still expected to update these documents on an ongoing basis.
- 33 Where a college is either submitting a capital project, recovery plan or undertaking a reorganisation, the funding bodies reserve the right to ask for a copy of the college's risk management plan.

Resubmission of plan (January 2011)

- 34 If the college's circumstances have significantly deteriorated since the submission of the financial plan (for example, the actual out-turn for the year to 31 July 2010 is significantly different from the assumption in the plan), colleges may be required to resubmit their plan. Resubmissions will normally be required by 31 January 2011. Colleges that are required to resubmit their plans will be advised by the appropriate funding body.

Requirement to notify the appropriate funding body

- 35 The college should notify the appropriate funding body in writing if at any time there is a significant deterioration in its financial position (Financial Memorandum Part 1 paragraph 33).

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