2013 Financial Forecast Return (including additional information relating to the ONS reclassification of incorporated colleges)

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Summary: This document provides guidance for the completion of incorporated colleges' FFR returns

FAO: Principals and directors of Scotland's incorporated colleges

Further information:

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Promoting further and higher education

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Guidance for completion

Return must be provided by 31 August 2013

Introduction

1. As part of the SFC's financial health monitoring framework, colleges are requested to provide a forecast out-turn for the current financial year (2012-13) and financial forecasts covering the next two years (2013-14 and 2014-15).

2. We are asking incorporated colleges to provide us with some additional information this year, following their reclassification as part of the central government sector by the Office for National Statistics.

Key planning assumptions

3. When completing the return, colleges should base 2013-14 forecasts on the 2013-14 outcome agreements published on 17 June 2013.

4. The 2014-15 budget should be based on the 2013-14 funding allocations which are set out in the 2013-14 outcome agreements. In light of the Scottish Government's commitment to provide a floor in college funding of £522 million in 2013-14 and 2014-15, colleges should use a 'flat cash' planning assumption in relation to SFC grant (revenue and capital) and student support funding for the purposes of this return. Also, for the purposes of this return only, colleges should budget for the same level of WSUMs as for 2013-14. This is to ensure consistency across the sector, and does not represent any commitment on funding for 2014-15.

5. In the commentary document that should accompany the return, colleges should state the key underpinning assumptions applied to assist with our understanding of the forecasts.

Pensions

6. For colleges that are using the 'defined benefit' treatment for one or more of their pension schemes, please enter the appropriate figures in note 10 on the 'Additional Info' sheet.

7. The assumptions made regarding the movements in the pension scheme asset/liability should be recorded in the space provided under note 10; the assumptions made regarding the impact on the income and expenditure account should be included in note 11 for service costs; and the assumptions

made regarding the net return on the asset/liability should be included in note 12 on the 'Additional Info' sheet.

Structure of the FFR

8. The FFR takes the form of an excel spreadsheet which has 11 sheets. A copy, pre-populated with information unique to each college, has been sent directly to each college's finance director/finance officer. For information purposes an unpopulated copy can be downloaded from the Guidance section of the website:

   http://www.sfc.ac.uk/guidance/GovernanceGuidance/FinancialSustainability/FinancialSustainabilityGuidance.aspx

9. Ten of the sheets require input by the college. We suggest the order of completion is:

   (i) 'Income'
   (ii) 'Non-SFC income'
   (iii) 'Expenditure'
   (iv) 'I&E'
   (v) 'Balance Sheet' and 'Additional Info' (these two sheets should be completed together, as various inputs on each drive figures on the other)
   (vi) 'Cash flow'
   (vii) 'SG budget info'
   (viii) 'Borrowing and bank covenants'
   (ix) 'Declaration'

Completion of the FFR

10. As a result of the reclassification and the forthcoming change in accounting year, we will require financial forecasts for:

   - 12 months to 31 July 2013;
   - 8 months to 31 March 2014; and
   - 12 months to 31 March 2015.

11. We are also requesting the following additional information:

   (i) Details of working capital requirements:

   Under government consolidated budgeting guidance, any movement in working capital will impact on the resource outturn position for colleges. In establishing a working capital position colleges will be expected to broadly maintain that position at subsequent year ends, although the position can fluctuate over the course of the year. We would expect that colleges would want to keep levels of working capital as low as possible – this would allow any 'usable' reserves to be kept available (once we have identified the mechanism to do that). Working capital should therefore be the minimum necessary to manage cash flow over the course of the year, bearing in mind that, as part of the central government cash management arrangements, we can tailor the cash payments for colleges to help manage any peaks and troughs in that cash requirement over the course of the year. You should note that cash balances within central government bodies tend to be low.

(ii) Information on colleges' financial commitments and how these will be financed:

It is important that we get a clear picture of any existing financial commitments or plans for significant expenditure in the future. We also need to identify how any such expenditure would be funded, including where colleges planned to utilise cash reserves.

(iii) Capital receipts from fixed asset disposals

(iv) Amortisation of intangible fixed assets and impairment of fixed assets

(v) Details of trading subsidiaries' turnover and operating results

(vi) Details of any existing charitable trusts

(vii) Information on existing and planned borrowing, including details of bank covenants

(viii) Details of income from non-SFC sources.

12. The forecast period for 2013-14 is less than 12 months, and is not directly comparable with prior and subsequent years. For this reason, the variance analysis in the return is limited to a comparison of 2011-12 actual with 2012-13 forecast figures.

Input of financial forecast figures and comparatives

13. The 2011-12 comparative figures have been populated taking figures from the 2011-12 financial statements return. These figures have not been locked in the

spreadsheet to allow you to make any necessary changes.

14. The sheets in the spreadsheet contain blue highlighted boxes into which the forecast figures should be input.

15. Please note that only whole numbers can be input into the return. Please do not link the spreadsheet to another document or change the formatting in the spreadsheet.

16. This year, the spreadsheet does not alert you when an explanation for a variance is required. Please enter explanations for any significant variances where appropriate (only on the comparison between 2011-12 and 2012-13).

Sheets not requiring completion

17. The Summary sheet does not require to be completed. This summarises various key figures from the spreadsheet, and it is populated automatically.

Commentary

18. Colleges should also provide a commentary on the financial forecasts. This serves two purposes:

- to explain how the financial forecasts reflect the college's strategic plan; and
- to enable a proper understanding of key aspects of the financial forecast.

19. We appreciate that ONS reclassification brings significant uncertainty and this makes the preparation of a meaningful financial commentary more challenging. However, it is important that SFC (and ultimately Scottish Government) is aware of the issues and concerns facing colleges and the narrative of the commentary will help ensure we have a good awareness of these key matters.

20. It would be helpful if the following areas could be covered by the commentary:

Introduction

21. This should cover the context in which the forecasts have been prepared. It should include an explanation of how the elements of the college's strategic plan, human resource management strategy and estate strategy are reflected in the forecasts, and how these developments are to be financed.

Review of financial performance 2012-13

22. Discuss the key features of the latest forecast financial performance in 2012-13 and highlight positive and negative variances from previous forecasts (e.g. 2012 financial forecast return).

SFC recurrent grant

23. You should confirm your assumptions regarding SFC grants for 2013-14 and 2014-15.

Changes in tuition fee income and other income

24. This should include details of the assumptions made regarding student numbers and the reasons for year-on-year movements in other sources of income including European funding.

Changes in staff and non-staff costs

25. Discuss the reasons for year-on-year movements in pay and non-pay expenditure and the impact on non-pay expenditure of price changes and changes in the level of activity.

26. In particular the following areas should be addressed:

- assumptions regarding pay awards and their impact on pay expenditure;
- assumptions regarding staff numbers;
- impact of equal pay audits; and
- assumptions regarding future pension contribution costs.

ONS reclassification

27. This should provide details of any specific issues or concerns arising from ONS reclassification which are considered relevant to the 2013 Financial Forecast Return.

Risk management

28. This should provide details of the key risks identified when preparing the forecast and details of the risk management strategies devised to deal with them.

Any other information

29. This should provide any other information which you feel should be brought to our attention.

Declaration

30. The 'Declaration' sheet should be signed and dated by the principal.

Return of the FFR

31. Please send both a hard copy and an electronic copy of the return and the financial commentary by **31 August 2013**.

32. The hard copy should be sent to: Angela Iannetta, Administrative Officer, LGS, Scottish Funding Council, Apex 2, 97 Haymarket Terrace, Edinburgh, EH12 5HD. Alternatively, a signed copy can be emailed in PDF format to the GMAP-returns email address below.

33. The electronic copy should be sent to: GMAP-returns@sfc.ac.uk

Further information

34. Please contact Wilma MacDonald, Financial Analyst, Learning, Governance and Sustainability for further information, Tel: 0131 313 6565; email: wmacdonald@sfc.ac.uk.

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