Skills Funding Agency

Financial Planning Handbook

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

April 2012

CFFD

Education Funding Agency

Association of Colleges

Financial Planning Handbook

Effective for all colleges' financial plans.

Summary

The Financial Planning Handbook (the Handbook) has been prepared in the 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 funding bodies.
- cut down on bureaucracy, in that the funding bodies will stop publishing financial planning documents in hard copy if they have not changed.

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.

This Handbook will be updated periodically and the latest version will be published on the Skills Funding Agency, Education Funding Agency and AoC websites.

The YPLA was dissolved and its responsibilities transferred to the Education Funding Agency (EFA) from 1 April 2012. The EFA is an executive agency of the Department for Education.

Contents

1 Overview of Financial Planning

1.1. The Financial Planning Handbook sets out guidance on financial planning information that the Skills Funding Agency and Education Funding Agency (EFA) wish to receive by 31 July each year 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 EFA.

1.2. 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.

Intended recipients

1.3 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 EFA.

1.4 The YPLA was dissolved and its responsibilities transferred to the Education Funding Agency (EFA) from 1 April 2012. The EFA is an executive agency of the Department for Education.

Financial plans

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

1.6 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).

1.7 Both risks could compromise the funding bodies' 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

1.8 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.

1.9 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, expenditure and cash-flows 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.

1.10 Colleges are reminded that the governing body should approve financial plans, and that budgets for the new academic year should be approved before 1 August.

Information requested in July each year

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

Table 1: Summary of information requested by 31 July

	General FE colleges	Sixth Form colleges	Submission to:
Financial plans			
• Three-year financial plan electronic (Excel) version • Electronic (Word) commentary • Scanned copy of the front sheet of the financial plan.	✓ ✓ ✓		Skills Funding Agency at: pfm@skillsfundingagency.bis.gov.uk
• Three-year financial plan electronic (Excel) version • Electronic (Word) commentary • Scanned copy of the front sheet of the financial plan		✓ ✓ ✓	Education Funding Agency at: externalassurance.EFA@education.gsi.gov.uk

Colleges **must only** send electronic versions of documents to the relevant funding body. The funding bodies **do not** require colleges to return hard (paper) copies.

1.12 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 then the appropriate funding body should only receive a copy of the merged college's financial plan by the required deadline of 31 July.

1.13 Where a college is developing a strategic recovery plan and cannot provide a reliable three-year financial plan at 31 July, 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.

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

1.15 The financial planning template is available to download from any of the following websites: Skills Funding Agency, EFA and AoC.

1.16 Neither the Skills Funding Agency nor the EFA is in a position to provide guidance in this Handbook on assumptions to use in the financial plans. The AoC may separately suggest possible approaches, but colleges will make their own decisions as to the most realistic assumptions.

1.17 Colleges will also wish to consider their financial plans on a worst-case scenario basis. The worst-case scenario may be considered as part of a sensitivity analysis or a separate financial plan. The sensitivity analysis may 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.

Commentary to the plan

1.18 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. A suggested checklist for colleges is attached as Annex A to this Handbook.

Benchmarking

1. 19 Since 2004/05, the responsible funding body has published a spreadsheet containing data from the vast majority of college finance records. A copy of the latest financial year's data can be downloaded from the Skills Funding Agency website.

1.20 Trend analysis information which was previously available as part of the Financial Planning Handbook Chapter 5 will also be published on the Skills Funding Agency website.

Financial plan template

1.21 No significant changes have been made to either the structure or content of this year's template, although 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.

1.22 This financial plan template must be completed for the following:

- capital project applications
- reorganisations, such as college mergers
- recovery plans
- the financial consequences of the college's strategic and development plan (submission date 31 July each year)

1.23 If colleges need to complete more than 4 years in the financial plan, then they should unhide the respective columns in each worksheet.

1.24 The templates are available on the websites listed at paragraph 1.15 above as Excel workbooks. Completed plans should be submitted in line with the table at paragraph 1.11 above.

1.25 For further information, please contact the appropriate funding body.

Skills Funding Agency email: pfm@skillsfundingagency.bis.gov.uk

YPLA email: externalassurance.EFA@education.gsi.gov.uk

Principal's Statement in the financial plan

1.26 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.

Financial Plan

1.27 The financial plans are used for a number of purposes. The funding bodies expect colleges to use the plan for internal planning and monitoring purposes, and review each plan alongside the associated data. This helps them to form an opinion on the financial health of the college and to determine whether there are issues to be raised with the college.

1.28 The funding bodies aggregate all financial plans to give a summarised view of the financial health of the sector. The information also provides a basis for advice to the Secretaries of State for Business Innovation and Skills ('BIS') and the Department for Education. Aggregate data are also used to respond to ad-hoc queries from colleges and government.

1.29 Therefore, it is important that a college's financial plan presents a realistic view of its position so that the appropriate funding body and government department gets a realistic view of the financial health of the sector.

Risk management and disaster management plans

1.30 The AoC College Finance Directors Group (CFDG) published a good practice guide to risk management within the further education sector in 2011, which should help enable colleges to demonstrate compliance with the UK Corporate Governance Code.

1.31 Colleges are not required to submit copies of their risk management and disaster management plans with their three-year financial plan, however colleges are still expected to update these documents on an ongoing basis.

1.32 Where a college is 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)

1.33 If the college's circumstances have significantly deteriorated since the submission of the financial plan (for example, if the actual out-turn for the year to 31 July 2012 was significantly different from the assumption in the plan), colleges may be required to resubmit their plan. Re-submissions would then normally be required by 31 January 2013). Colleges that are required to resubmit their plans will be advised by the appropriate funding body.

Requirement to notify the responsible funding body

1.34 The college should notify the appropriate funding body in writing if at any time there is a significant deterioration in its financial position.

2 Monitoring the Financial Health of Providers

Background

2.1 The Skills Funding Agency (Agency) and the Education Funding Agency (EFA) are required to monitor the financial health of providers. In addition to this formal requirement, they assess colleges' financial health to understand the degree of risk they may represent if they do not have the financial resources to continue operating.

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

- learners suffering when their learning provision is disrupted or terminated
- being unable to recover any funds owed to them by the college (for example, funds paid on profile in excess of learning provided at the time learning ceases)

2.3 Both risks, which may be present simultaneously, could compromise the appropriate funding body's statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, the appropriate funding body gathers assurance 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.

2.4 The two key financial documents used to gather this assurance are the college's financial plan and the college's financial statements. The guidance and submission requirements for the financial plan are provided in this Financial Planning Handbook ('the Handbook') while the guidance on the completion of the financial statements is provided in the Accounts Direction Handbook.

Financial Plan

2.5 The financial should be an integral part of each college's own strategic plans, as it expresses in financial terms the cost of implementing those plans and shows the income, expenditure and cash-flows associated with projected levels of activity. The financial plan is intended to help each college's governing body, and the appropriate funding body, to assess the financial effect of a college's strategic plans.

2.6 Colleges must approve a budget before the start of the academic year (1 August). Colleges are also required to include this budget as the first year in their financial plans.

Financial Health Assessment

2.7 The funding bodies' approach to grading the financial health of colleges and other providers is incorporated into the college financial returns. It results in one of four assessment grades: outstanding, good, satisfactory or inadequate.

2.8 Where a college's financial health is graded as 'inadequate' for the previous year (forecast or actual outturn) or the current year (budget), this will form the basis for issuing a Financial Notice of Concern or a Financial Notice to Improve, in accordance with the guidance published by the relevant funding body.

2.9 One objective of the approach is that the automatically calculated health grade (autoscore) should require moderation in a relatively small number of instances.

2.10 The moderation and validation process in relation to financial health assessments requires the appropriate funding body to review and confirm colleges' financial health grades based on each financial return.

Grade definitions and scoring

2.11 The grade definitions under the methodology are summarised below:

Grade	Definition	Indicators
1 Outstanding	A provider that has very robust finances to fulfil its contractual obligations and to respond successfully to opportunities or adverse circumstances.	Normally, a provider with excellent/good indicators for solvency (current ratio), performance (cash-based operating surplus/(deficit) to income ratio), and gearing (borrowing to net assets ratio).
2 Good	A provider that has sufficiently robust finances to fulfil its contractual obligations, and to respond successfully to most opportunities or adverse circumstances.	Normally, a provider with at least two good indicators for solvency, performance and gearing.
3 Satisfactory	A provider that appears to have sufficient resources to fulfil its contractual obligations, but also appears likely to have limited capacity to respond successfully to opportunities or adverse circumstances.	Normally, a provider with at least two satisfactory indicators for solvency, performance and gearing.
4 Inadequate	A provider that is in financial difficulty and very likely to be dependent on the goodwill of others. There is a significant risk of providers in this group not being able to fulfil contractual obligations because of weak financial health.	Normally, a provider with at least two inadequate indicators for solvency, performance and gearing.

2.12 The table below sets out the scoring for each of the three ratios:

Score	Adjusted current ratio	Cash-based operating surplus/ (deficit) as a % of income	Borrowing as a % of net assets
0	< 0.5	< 0	>/= 90 or negative
10	>/= 0.5	>/= 0	< 90
20	>/= 0.6	>/= 1	< 80
30	>/= 0.7	>/= 2	< 70
40	>/= 0.8	>/= 3	< 60
50	>/= 1.0	>/= 4	< 50
60	>/= 1.2	>/= 5	< 40
70	>/= 1.4	>/= 6	< 30
80	>/= 1.6	>/= 7	< 20
90	>/= 1.8	>/= 8	< 10
100	>/= 2.0	>/= 9	0

2.13 The adjusted current ratio excludes restricted cash from disposal of fixed assets held for future reinvestment AND assets held for resale (i.e. those previously transferred from fixed to current assets).

2.14 The cash-based operating surplus figure is calculated as operating surplus plus depreciation less associated capital grant releases, exceptional support and pension finance income plus FRS 17 (staff costs) adjustment.

2.15 The three scores above are then totalled and the financial health grade is calculated as follows:

Points	Grade
240 - 300	Outstanding
180 - 230	Good
120 - 170	Satisfactory
</= 110	Inadequate

Note: Additional points for consistency across two or three ratios are no longer part of the grading system.

Underlying financial health

2.16 For the financial plan, the financial health grade for each year is initially calculated and subject to moderation where appropriate. An underlying financial health grade is then assessed based on the points scored and the grades for the immediate past and current years. This underlying grade may be updated subsequently based on the audited financial statements or other new information, until the next financial plan return.

2.17 Any queries about the approach to financial health assessment should be addressed to the relevant funding body in the first instance.

Moderation of autoscore

2.18 The autoscore is moderated only in accordance with the criteria set out below.

Capital Uplift

2.19 For colleges undertaking a significant capital project (greater than £5m or 25% of income) with an autoscore of 'inadequate' at their 31st July year end (i.e. the 31st July year end lies within the capital project lifecycle which is defined as: date of project start to financial year in which either the project ends or the final grant payment is made by the relevant funding body), the financial health grade will be uplifted to 'satisfactory' rather than using the autoscore of 'inadequate' in any year, provided that:

a. the college is graded outstanding, good, or satisfactory at the time of the detailed project approval; and

b. it will return to a grade of at least satisfactory by the year following either project completion or the final grant payment by the relevant funding body; and

c. it performs at least as well (in the opinion of the relevant funding body) as forecast in the project proposal during the intervening years; however, if a college performs less well than it forecast then its grade will reflect this.

2.20 This will ensure that colleges which are undertaking a capital project but which are otherwise financially sound, do not automatically come into scope for a Financial Notice to Improve in respect of their financial health.

Other Moderation Criteria

2.21 The following other criteria will form the basis for moderation of financial health grades based on colleges' financial plan returns and their finance record returns.

a. a college may make a case seeking moderation (to one grade higher or one grade lower) on the following bases:

   i. where a college incurs significant staff restructuring costs in a single year ('significant' defined as >5% of staff costs); or

   ii. where a college has incurred significant professional fees, which could not be capitalised, in relation to a capital project development.

b. in addition, the relevant funding body will moderate a college's grade on the following bases:

   i. where a college is in receipt of advances of funds from the relevant funding body at the financial year-end, this would normally lead to an 'inadequate' grade for financial health being reported for that year;

ii. where a college scores 0 points for one of the three ratios then it can be graded no better than satisfactory;
iii. where the cash being generated year on year is more than sufficient to enable a college to meet its net current liabilities then this may lead to an autoscore of 'inadequate' being moderated to 'satisfactory'; and
iv. where information other than the latest available audited financial statements or financial plan, supported by factual evidence, indicates that the financial health is significantly different from the autoscore. 'Significantly' would here be defined as sufficiently different to generate an autoscore at least one grade lower. Examples might include (but would not be limited to):
    - a court ruling which has financial consequences;
    - the loss or significant reduction of a material contract or area of provision;
    - a significant recovery of funds following a funding audit or investigation; or
    - a contingent liability crystallising.

Self-assessment of Financial Health

2.22 As part of their plan submission, colleges are asked to provide a self-assessment of their financial health. The guidance on financial health self-assessment is based upon the principles that:

- 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 appropriate funding body's assessment of the college's financial health should be based on the same published guidance, including any moderation criteria
- the college's board of governors should confirm the self-assessment

Submission of Financial Statements

2.23 The funding bodies are required to collect and retain original copies of colleges' audited financial statements. The financial memorandum requires that colleges submit these to the appropriate funding body within five months of the end of the financial year, i.e. by 31 December each year.

2.24 Colleges are also required to submit an electronic version of their financial statements in a specific format (the finance record). This is to ensure the data is captured in a consistent format, to allow for comparison and analysis and to form the basis for an update of the college's financial health assessment. Further guidance on the Finance Record is given in the Accounts Direction Handbook.

3 Funding Body Guidance

Introduction

3.1 The Skills Funding Agency ('the Agency') and the Education Funding Agency (EFA) periodically publish guidance which set out their respective key operational policies that will inform the planning and delivery of future provision. Providers are advised to regularly refer to the two organisations' websites for updates to the respective funding body's guidance.

3.2 The respective funding bodies will not provide colleges with detailed planning assumptions. Colleges are expected to base their financial plans on the local circumstances which apply to them. Colleges should provide a detailed narrative in support of their financial plan template outlining the various planning assumptions they have made. These will be used by the respective funding body as part of their review process for college financial plans.

Skills Funding Agency

3.3 The Agency regularly produces *Update* which is a weekly round up of business critical information and news for the sector. Colleges are advised to check this section of the Agency's website on a regular basis to ensure that they remain informed of the Agency's latest policy and funding developments.

EFA

3.4 The EFA produces fortnightly *e-bulletins* that aim to share important information with providers and local authorities. Any major policy updates are covered in these e-bulletins. Colleges are advised to check this section of the EFA's website on a regular basis.

4 Commentary to the Plan

Introduction

4.1 Colleges are asked to provide a commentary to support the financial plan. The commentary is an important component of the plan and it should clarify the following points:

- how the financial plan is consistent with the college's own strategic plan
- major movements between plan 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
- the contribution made by different areas of activity
- the college's self-assessment of its financial health and an explanation of any variance from the computed financial health group.

4.2 A suggested checklist is provided as an Annex to this Handbook on issues to consider when completing the financial plan and commentary. The checklist is for colleges' own use and does not need to be returned to the appropriate funding body.

Financial Objectives

4.3 In order to assist the college in achieving its strategic plans, the governing body should set financial objectives or targets. The purpose of setting such objectives is to establish limits within which the college should operate. Governors may wish to set targets for aspects such as solvency, reserves and dependency on certain types of income. When the appropriate funding body reviews colleges' financial plans they consider whether the targets set by those colleges are appropriate, particularly for solvency.

Assumptions

4.4 Colleges are expected to base their financial plans on the local circumstances which apply to them. Colleges should either complete schedule 6 of the financial planning template to state their key assumptions or include them as part of their commentary to accompany the financial plan. It is not mandatory for the supporting commentary to contain a statement of key assumptions, however we recommend colleges use the commentary to clarify the assumptions used.

Sensitivity Analysis

4.5 The information in the financial plan should reflect the financial effect of the planned levels of activity described in a college's strategic and three-year development plans. Due to the continued pressure on public funding this will require colleges to adopt an even more rigorous approach to the preparation of their plans, risk assessment and sensitivity analyses. The sensitivity analysis is intended to show the financial implications if more unfavourable conditions apply. Therefore, colleges should examine critically the underlying key assumptions and to assess realistically the effect of adverse circumstances and failure to meet their plans.

4.6 Colleges may wish to use schedule 5 of the financial planning template to perform a sensitivity analysis and use the commentary to highlight the results of their analysis and to expand on or clarify the contents of schedule 5. Alternatively, colleges may wish to include a full sensitivity analysis within the commentary.

4.7 Some planning 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 third party support could affect a college's growth or the number of staff employed, leading to a very different outcome from the original financial plan.

4.8 Where a financial plan contains critical assumptions of this nature, colleges are advised to complete a second plan based on the alternative scenario and to share it with the appropriate funding body. Where a college considers that different outcomes have an impact on its financial viability, it is considered essential that an alternative financial plan is produced that reflects the impact of those changes.

4.9 Colleges should identify contingency actions to mitigate the consequences of the identified sensitivities. Colleges should discuss with the appropriate funding body where these actions lead to a rationalisation of provision in any programme area or locality.

4.10 To appreciate the implications of sensitivities, it is important that they are costed.

4.11 Colleges are reminded that their sensitivity analysis should be an integral element of their risk management plan.

4.12 When reviewing colleges' financial plans, the appropriate funding body will consider the adequacy of the sensitivity analysis and contingency planning that has been carried out.

Risk Management Plans

4.13 The AoC CFDG published a good practice guide to risk management within the further education sector in 2011, which should help enable colleges to demonstrate compliance with the UK Corporate Governance Code.

4.14 Colleges are not required to submit copies of their risk management and disaster management plans with their three-year financial plan, however colleges are still expected to update these documents on an ongoing basis.

4.15 Where a college is submitting a capital project, recovery plan or undertaking a reorganisation, the appropriate funding body will reserve the right to ask for a copy of the college's risk management plan.

Disaster Management Plans

4.16 Colleges may wish to integrate disaster management planning with their risk management plan. However, it may be considered appropriate to have a separate section that deals with more extreme risks. Responses to disasters are likely to require more far-reaching actions that, in turn, have an impact on other aspects of the college. Of necessity, this "domino effect" will involve more resources. Conversely, major disasters are far less likely to occur.

Financial Objectives Adopted by Colleges

4.17 Colleges should set clear financial objectives that support the achievement of their strategic objectives. Progress against these objectives should be monitored and reported on a periodic basis through a series of performance indicators.

4.18 Example indicators might include:

a. maintaining a sound financial base (solvency and liquidity) based on the following:
   i. we will have a general reserve of XX per cent of income by 31 July 20XX and YY per cent by 31 July 20XX
   ii. we will maintain cash days of XX or more at all times
   iii. we will achieve break-even by 31 July 20XX and have an operating surplus by 31 July 20XX
   iv. we will generate a cash inflow from operating activities by 31 July 20XX
   v. we will reduce borrowing to XX per cent of general reserves by 31 July 20XX, and YY per cent by 31 July 20XX
   vi. we will have a current ratio of more than XX:1 by 31 July 20XX)

b. improving financial management by producing management accounts on a monthly basis, incorporating an income and expenditure account, balance sheet, 12 month rolling cash flow forecast, capital expenditure, financial performance indicators, staffing information and funding information (including plans)

c. strengthening procedures for testing the desirability and affordability of any proposals which have a financial implication by 31 July 20XX

d. introducing post-implementation review procedures in order to assess the success or otherwise of major investments (building,

e. maintaining the confidence of funding bodies, suppliers and professional advisors by:
   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

f. raising awareness of financial issues by:
   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 that staff, management and governors are kept up-to-date with the financial position of the college; and

g. improving the stock of college accommodation and equipment by:
   i. generating sufficient funds to ensure that the college's specified programme of planned maintenance can be undertaken
   ii. generating sufficient funds to ensure that the college can invest in the 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

5 Guidance on completing the Financial Plan Template

Financial plan template

5.1 Whilst no significant changes have been made to either the structure or content of the template since last year the funding bodies and AoC 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.

5.2 This financial plan template must be completed for the following:

- capital project applications
- reorganisations, such as college mergers
- recovery plans
- the financial consequences of the college's strategic plans (submission date 31 July each year)

5.3 If colleges need to complete more than 4 years in the financial plan, then they should unhide the respective columns in each worksheet.

5.4 The "copy and paste" function in Excel will cause protected cells to change their formulae and may cause the "Ref!" error message to appear. Therefore, colleges should not use this function when completing their plans. Furthermore, no additional worksheets should be added into formal plan submissions. The appropriate funding body will be checking plan submissions and plans which do not comply in this regard will be rejected.

Format

5.5 The first sheet is a guidance notes page, which provides guidance on certain aspects of the template.

5.6 The second sheet (the "cover sheet") is the Principal's Statement. This represents an executive summary of the key features of the plan and shows the self assessed financial health rating for the college for the first four years of the template.

5.7 A contents page is included after the Principal's Statement to show all the tables and schedules in the financial plan.

5.8 The next four sheets, known as tables, represent a summary of the financial position of the college, and contain three primary statements and ratio analysis:

- income and expenditure account (Table 1)
- balance sheet (Table 2)
- cash flow (Table 3)

- ratio analysis (Table 4).

5.9 If the reader of the financial plan requires further information from that shown in the tables, then the working papers to these tables are provided in the schedules, for example, the backing documents to:

- Table 1 income and expenditure account are Schedules 1a to 1f
- Table 2 balance sheet are Schedules 2a to 2g
- Table 3 cash flow is Schedule 3.

5.10 Schedule 4 shows the indicative financial health calculation.

5.11 Schedule 5 is a sensitivity analysis, which enables colleges to conduct "what if" analyses.

5.12 Schedule 6 sets out the key assumptions colleges have made in producing their plan.

5.13 The cells containing formulae deriving data from other tables and schedules have a light blue background. This is to make the plan more user-friendly where it is being completed by the partially sighted.

5.14 On most of the sheets an optional narrative box is included. This is to enable colleges to write specific notes which relate to the composition of the figures in that form. Whilst there is no requirement for these boxes to be completed or to be part of the submission, colleges may wish to use them to explain any variances, assumptions or risks, although we recommend that this information is also included in the commentary to the plan.

5.15 The template is called "Financial Plan.xlsx".

Form layout

5.16 The screen titles will differ depending on the form selected. Depending on the screen settings of the monitor only part of a form may be seen at any time. The display can be changed within the current screen settings by choosing the percentage adjuster on the standard toolbar. Click on the scroll bar or the up and down arrows on the scroll bar to move up and down within the form.

5.17 The forms contain either data entry fields or data entry and calculated fields. Calculated fields are shaded light blue and it is not possible to enter data into these fields; it is only possible to enter data into the data entry fields. All the other cells are locked and if an attempt is made to input data, an error message will inform the user that the field is locked. This means that data cannot be entered in this field.

5.18 The first year of the financial plan must be the forecast out-turn for the current year. For example, a three-year financial plan covering the period 2012 to 2015 must have 2012 as its first year in the template.

5.19 Prepare all figures on the accruals basis of accounting unless otherwise stated. Show all income and expenditure gross. Where boxes are shaded light blue the software automatically calculates their value. Please do not include in the main part of the financial plan any income and expenditure where the college acts as an agent, for example Learner Support Funds.

Error messages

5.20 If any of the tables or schedules are incomplete an error message will appear in blue text. **Ignore these until all tables and schedules are complete.** If error messages continue to be displayed after all the figures are entered then investigate the cause. **Please ensure all error messages are cleared before the financial plan is returned to the appropriate funding body**.

Negative Figures

5.21 Within the financial plan application, entry of negative figures is only permitted in certain lines. These are marked as '-ve' in red next to the relevant lines (for example within Schedule 2a Tangible fixed assets).

Potential problems

5.22 Error messages will be shown on the individual forms if all schedules are not completed, as explained above. It is necessary to save a table or schedule before exiting and the application will prompt you to do so when you try to close the template from a table or schedule. If no amendments are made the form will close without prompting a save. Amendments made to the table or schedule will be lost if the table or schedule is not saved.

Annex 1

Suggested Checklist for the Financial Plan Commentary

The suggested checklist below is for colleges' own use and does not need to be returned to the appropriate funding body.

	Checklist points	Yes / No / Not Applicable
1.	Financial Objectives • Has the college set detailed financial objectives? Are they set out in the commentary? • Has an assessment been included in the commentary of the extent to which they have been achieved?	
2.	Strategic plan • Is there a clear link between the projected learner numbers included in the college's strategic plan and the movement in funding and standard learner numbers ('SLN') recorded on Schedule 1b of the financial plan? If not, please explain any changes in the commentary. • Do the staff costs included in Schedule 1d of the plan reflect future staffing plans? • Does the financial plan reflect the financial implications of the college's property strategy? • Does the financial plan demonstrate that the college's financial objectives are being achieved? If they are not, is this addressed in the commentary? • Has a comprehensive sensitivity analysis been completed?	
3.	Approval • Has the governing body approved the plan?	
4.	Key Assumptions • Does the commentary include assumptions about: - Movements in funding and learner funding rate - income from the funding bodies other than the main funding streams - income from other sources, in particular: education contracts, tuition fees, European funds, commercial activities etc	

	Checklist points	Yes / No / Not Applicable
	- implementation of property strategy, in terms of capital investment, long-term maintenance and routine maintenance - increases in staffing costs arising from the effects of pay awards made - changes in national insurance contributions - changes in pension fund contributions - incremental drift: where incremental scales exist, estimate the gain resulting from staff losses at the high end of the scale being offset by new staff at the lower end - any changes anticipated for the local government pension scheme? • Does the commentary include the general level of pay awards assumed in the plan? • Does the commentary state any variation in the general inflation rate for specific items of income or expenditure? • Does the commentary state the interest rates assumed? • Does the commentary state the assumptions underlying income from all sources and all expenditure cuts? • Does the commentary give details of the college's planned maintenance programme, if applicable?	
5.	<u>Self-assessment of financial health</u> • Has the governing body made regular assessments of the college's financial health? • Has a review of the strategic plan and financial plan taken place in order to assess whether the college is able to support its plan with the resources identified? • Have the underlying strengths and weaknesses of the college's financial position been examined in order to assess the extent to which the college is likely to be vulnerable to adverse variances? • Does the commentary explain the college's rationale for its financial health self-assessment? • Does the commentary give reasons for any moderation from the automated health group assessment, if applicable, and are the grounds for moderation appropriate?	

	Checklist points	Yes / No / Not Applicable
6.	<u>Principal's Statement</u> • Has the financial health self-assessment been completed? • Has the budget statement been completed? • Has the Principal signed the form? • Does the Principal's Statement give the name and telephone number of the contact person for all enquiries?	
7.	<u>Table 1</u> • Does the commentary explain significant year-on-year movements? • Does the commentary explain any variances between the latest estimate of out-turn for the current year and the original budget?	
8.	<u>Tables 2 and 3</u> • Does the commentary identify significant asset purchases and disposals, including consents and purposes? • Does the commentary give the details of any loans, including consents and background? • Does the commentary explain significant year-on-year movements in debtors and creditors?	
9.	<u>Schedules 1a, 1b and 1c</u> • Does the commentary include the sources of grant income? • Does the commentary include the nature of any repayment of European Social Fund (ESF) funding? • Does the commentary include the sources of income from franchising provision? • Does the commentary include the main income-generating activities?	
10.	<u>Schedules 1d and 1e</u> • Does the commentary give details of any provisions included in expenditure? • Does the commentary explain large year-on-year movements?	

	Checklist points	Yes / No / Not Applicable
11.	Schedule 1f • Has the reconciliation of movements between years been completed?	
12.	Schedule 4 • Have the capital uplift (where appropriate) and self-assessment boxes been completed, including the narrative box (where appropriate)?	

Skills Funding Agency

Cheylesmore House
Quinton Road
Coventry CV1 2WT
T 0845 377 5000
F 024 7682 3675
www.bis.gov.uk/skillsfundingagency

BIS | Department for Business Innovation & Skills

This publication is available in an electronic form on the Association of Colleges, Skills Funding Agency and Education Funding Agency websites.

If you require this publication in an alternative format please contact the Skills Funding Agency Help Desk: 0845 377 5000

Skills Funding Agency – P – 120096