

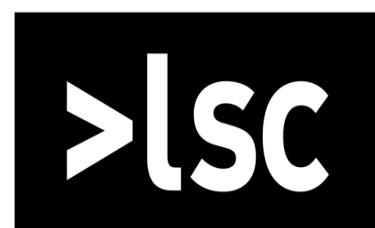
Financial Planning Handbook 2008 to 2011

May 2008

This Handbook is of interest to principals and chief executives of further education (FE) colleges, finance directors at FE colleges, financial statements auditors, regional LSCs and other key organisations in the learning and skills sector.



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Financial Planning Handbook 2008 to 2011

For action: Responses are requested by 31 July 2008

Planning

Further Education Colleges: Financial Plans 2008 to 2011

Summary

The Financial Planning Handbook sets out guidance on financial planning information that the Learning and Skills Council (LSC) wishes to receive by 31 July 2008 from further education (FE) colleges. Production of the Handbook has been a joint exercise involving the College Finance Directors Group (CFDG), the Association of Colleges (AoC) and the LSC.

Colleges should approve an annual budget before the start of each financial year (1 August). This should be the first year of FE 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 LSC.

Status

For response by 31 July 2008

Supersedes

Financial Planning Handbook 2007 to 2010

May 2008

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For further information, please contact the appropriate regional Learning and Skills Council office, or write to:

Provider Financial Management Team

Learning and Skills Council

Cheylesmore House

Quinton Road

Coventry CV1 2WT

www.lsc.gov.uk

Responses to this document

Responses are requested by 31 July 2008.

Enquiries

Provider Financial Management Team (LSC National Office)

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Executive Summary

Date: May 2008

Subject: Financial Plans 2008 to 2011

Intended recipients: Principals and chief executives of further education colleges, finance directors of further education colleges and local Learning and Skills Councils.

Status: For information and response.

This Handbook updates the guidance issued in the Financial Planning Handbook 2007 to 2010. The Handbook consists of:

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

Main changes:

- All assumptions updated for 2008
- The transition to a revised health scoring mechanism and assessment process, being that based on the Framework for Excellence ('FfE')
- Enhanced data requirements in relation to efficiency savings, including the requirement to provide projected savings
- A reduction in the number of capital schedules through the aggregation of the health measures under the 'traditional' and revised scoring methods

Date of response: Returns should be submitted to the regional office no later than 31 July 2008.

Financial Plans 2008 to 2011

1: Introduction

Introduction

- 1 The purpose of this Handbook is to provide guidance to further education (FE) colleges on the financial planning information that the Learning and Skills Council (LSC) wishes to receive by 31 July 2008.
- 2 In publishing this guidance, the LSC has consulted with the College Finance Directors Group (CFDG) and the Association of Colleges (AoC).

Background

- 3 *Planning for Success: A framework for planning and quality* sets out the LSC's framework for quality and success by establishing a new planning, funding and accountability system, based on greater partnership and trust, including three-year funding agreements.
- 4 All colleges and training providers are expected to agree a new development plan annually with their local LSC. Colleges will be expected to demonstrate how their financial plans support, and are supported by, their development plans.
- 5 The LSC's business cycle (the cycle) brings together strategic review, planning and funding. The principles on which the cycle is based reflect the LSC's commitment to simplicity, minimal bureaucracy, openness, transparency and trust. The cycle also complements and is reinforced by strategic area reviews (StARs). Together, these two processes will provide much greater clarity in terms of priorities and make the LSC's relationships with colleges and other providers clearer and more responsive. Further guidance on the cycle is contained in *Planning for Success*.

Financial plans

- 6 The LSC is required, under its financial memorandum with the Department for Education and Skills (DfES), to "monitor the financial health of providers and, as part of this duty, to keep their level of balances under review". In addition to this formal requirement, the LSC assesses colleges' financial health to understand the degree of risk they may represent to the LSC if they do not have the financial resources to continue operating.
- 7 When a college ceases to operate, or there is a significant deterioration in its financial position, the LSC faces the risks of:
 - learners suffering when their learning provision is disrupted or terminated
 - the LSC 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).

- 8 Both risks could compromise the LSC’s statutory responsibility to ensure proper and reasonable provision of facilities for post-16 learning. To reduce these risks, the LSC seeks assurance that the college has the necessary financial resources to:
- remain able to operate throughout the life of its funding agreements with the LSC
 - fully discharge its obligations under those funding agreements with the LSC.
- 9 The two key financial documents used by the LSC 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.
- 10 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 the LSC 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.
- 11 Colleges are reminded that the governing body should approve financial plans, and that budgets for 2008/09 should be approved before 1 August 2008.

Information requested in July 2008

- 12 One copy of the documents in Table 1 must be returned to the regional director of finance and resources at the appropriate regional office no later than 31 July 2008.

Table 1: Summary of information requested in July 2008

	FE colleges	Submission date	Other providers
Provider financial plans			
Principal’s Statement	✓	31 July 2008	Not applicable
Three-year financial plan – paper copy	✓	31 July 2008	Not applicable
Three-year financial plan – electronic version	✓	31 July 2008	Not applicable
Commentary	✓	31 July 2008	Not applicable

- 13 Where colleges are planning to merge after the deadline for the receipt of the financial plans by the regional office, then all parties must still submit a copy of their three-year financial plan. If the merger is occurring before or on 31 July 2008 then the LSC should only receive a copy of the merged college’s financial plan by the required deadline of 31 July 2008.

- 14 Where a college is developing a strategic recovery plan and cannot provide a reliable three-year financial plan at 31 July 2008, then it must seek consent from the regional office 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 LSC by the required deadline of 31 July 2008.
- 15 Colleges that need further clarification should contact their regional office at the earliest opportunity.
- 16 The financial planning template is available to download from the LSC's website <http://www.lsc.gov.uk/providers/pfm/financial-support/>

2: Financial Planning Handbook

Objectives

- 17 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
 - cut down on bureaucracy, in that the LSC will stop publishing financial planning documents if they have not changed.

Format of the Handbook

- 18 The Handbook has the following contents:
- amendments record list
 - monitoring the financial health of providers
 - financial planning assumptions 2008/09 to 2010/11
 - commentary to the plan
 - trend analysis (taken from college finance records) 2003/04 to 2006/07
 - financial plan template (Excel spreadsheet)
 - guidance on completing the financial plan template
 - links to key documents on the Internet
- 19 The Handbook will be only issued in hard copy format to colleges when substantial changes have occurred since its last publication. Instead, the LSC will publish the latest version of the Handbook on its website
<http://www.lsc.gov.uk/providers/pfm/financial-support/>
- 20 If you would like to be on a distribution list in order to receive notification and copies of any Handbook updates, please complete the form in the Annex to this document and return to Provider Financial Management Team (National Office) either by email or by post.
- 21 The Handbook has been designed to be a useful document for colleges. If you have any comments on its improvement, please complete the form in the Annex and return it to Provider Financial Management Team (National Office).

Financial planning assumptions 2008/09 to 2010/11

- 22 The LSC expects financial plans to be prepared on a realistic basis, taking account of the financial planning assumptions suggested in Section 3 of the Handbook, although no doubt 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.
- 23 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 may wish to use the commentary to clarify the assumptions used.

Commentary to the plan

- 24 The commentary to the financial plan should demonstrate clearly how the financial plan is consistent with the college's own strategic and three-year development plans and with the local LSC's strategic plan.
- 25 A suggested framework for the textual commentary to support the financial plans is set out in Section 4 of the Handbook.
- 26 The move to demand-led funding and the emphasis on contestability requires that colleges discuss the risks inherent in their plans and appropriate contingency planning with their local LSCs. 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

- 27 In Circular 05/03, the LSC also sought views from the sector on whether they would like the LSC to publish, on an annual basis, a sector-wide summary of the information provided in college financial plans.
- 28 Out of the 335 colleges replying to the consultation, 316 (94 per cent) wanted the LSC to produce better benchmarking from the financial plans.
- 29 Therefore, in November 2005 the LSC published a circular consisting of:
- a main circular providing an analysis of the benchmarking data
 - a CD providing 96 consolidated financial plans by sector type, regionally and nationally and a benchmarking summary spreadsheet.
- 30 In addition, since 2004/05, the LSC has published a spreadsheet containing data from the vast majority of college finance records. A copy of the 2006/07 spreadsheet can be downloaded from the LSC's website

<http://www.lsc.gov.uk/providers/pfm/financial-support/College+Accounts.htm>

- 31 The LSC wishes to publish better benchmarking on colleges' financial plans. It has been recommended by the CFDG that this could be done if the LSC were to publish 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".

32 Chapter 5 of the Handbook provides some trend analysis between 2003/04 and 2006/07 for some key ratios. It is hoped that colleges will find this benchmarking material useful when preparing their financial plans.

Financial plan template

33 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 2008, the LSC is 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.

34 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).

35 If colleges need to complete less than 10 years in the financial plan and they are using Excel 2003, 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.

36 The templates are available on the LSC's website <http://www.lsc.gov.uk/providers/pfm/financial-support/> as Excel workbooks. Disks will not be sent out to colleges unless specifically requested. Completed plans should be submitted to the regional office via email (and copied to the national office provider financial management team (pfm@lsc.gov.uk)). A list of regional contacts is set out on the following page. Colleges unable to use this software should contact the LSC's telephone helpline on the number at the beginning of this document.

LSC Regional contacts

Region	Region	Region
East of England	East Midlands	Greater London
Alan Searle Learning and Skills Council 2 Railton Road, Woburn Road Industrial Estate, Kempston, Bedfordshire MK42 7PN Tel: 0845 019 4160 Alan.Searle@lsc.gov.uk	Andrew Neill Learning and Skills Council 17a Meridian East Meridian Business Park Leicester LE19 1UU Tel: 0845 019 4177 Andrew.neill@lsc.gov.uk	Simon Tolaini Learning and Skills Council Centre Point 103 New Oxford Street London WC1A 1DR Tel: 0845 019 4144 Simon.tolaini@lsc.gov.uk or pfmlondon@lsc.gov.uk

Region	Region	Region
North West	South East	South West
Steve Dunmore Learning and Skills Council Greater Manchester Ninth Floor Arndale House Arndale Centre Manchester M4 3AQ Tel: 0845 019 4142 Steve.dunmore@lsc.gov.uk	Chris Birt Learning and Skills Council Pacific House Imperial Way Reading RG2 0TF Tel: 0845 019 4147 Chris.birt@lsc.gov.uk or sepfm@lsc.gov.uk	Mike Croker Learning and Skills Council St Lawrence House 29-31 Broad Street Bristol BS1 2HF Tel: 0845 019 4168 Mike.croker@lsc.gov.uk

Region	Region	Region
North East	West Midlands	Yorkshire & Humberside
John Smith Learning and Skills Council Moongate House 5 th Avenue Business Park Team Valley, Gateshead, Tyne & Wear NE11 0HF Tel: 0845 019 4181 John.smith@lsc.gov.uk	Christopher Knight Learning and Skills Council NTI Building 15 Bartholomew Road B'ham West Midlands B5 5JU Tel: 0845 019 4143 Christopher.knight@lsc.gov.uk	Richard Hoyle Learning and Skills Council Mercury House 4 Manchester Road Bradford, BD5 0QL Tel: 0845 019 4169 Richard.hoyle@lsc.gov.uk or yhpfm@lsc.gov.uk

- 37 For further advice on how to complete the financial plan returns disk, or any other matters associated with this Handbook, colleges should contact their regional office or the LSC national office helpline on the number given at the beginning of this document.

3: Other Guidance

Principal's Statement in the financial plan

- 38 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

- 39 The LSC has 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 on the LSC website <http://readingroom.lsc.gov.uk/pre2005/funding/providers/circular0405-fecolleges-financialplansandriskmanagement.pdf> .
- 40 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.
- 41 Where a college is either submitting a capital project, recovery plan or undertaking a reorganisation, the LSC reserves the right to ask for a copy of the college's risk management plan.

Resubmission of plan (January 2009)

- 42 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 2008 is significantly different from the assumption in the plan), colleges will be required to resubmit their plan. To allow such changes to be considered at the college's annual review, the resubmission will be required by 31 January 2009 or at the annual review, if earlier. Colleges that are required to resubmit their plans will be advised by their regional office by 30 November 2008.

Requirement to notify the Learning and Skills Council

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

Annex: Comments on Aspects of the Financial Planning Handbook

Distribution List

If you would like to join a distribution list in order to receive notification of when the Financial Planning Handbook has been updated, please complete the form below and return to Provider Financial Management Team (National Office) either by email (to pfm@lsc.gov.uk) or by post (to Cheylesmore House, Quinton Road, Coventry, CV1 2WT).



Leading learning and skills

Name of college (*please print*):

Contact for queries (*please print*):

Email address:

Telephone number:

Other Comments

If you have any suggestions on improving the content of the Financial Planning Handbook, please write them below and send them to Provider Financial Management Team (National Office) at the above address.

Learning and Skills Council.
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