

Scottish Further Education Sector

Financial Guidance on Reclassification
for Incorporated Colleges



Scottish Funding Council
June 2015

SCOTTISH FE SECTOR - FINANCIAL GUIDANCE ON RECLASSIFICATION

Purpose & Role of This Guidance

1. It is intended for use by finance practitioners in the Scottish Further Education sector following the reclassification of supported colleges as public sector bodies.
2. It seeks to provide an overview of key areas that practitioners will need to be aware of based on the underlying reference sources.
3. It does not remove the need to read the underlying source requirements and specifications (e.g. the Financial Reporting Manual etc). This guidance may be updated, possibly on an annual basis dependent on whether significant changes have been implemented in the underlying reference sources. The underlying reference sources will however change over time and this manual is not anticipated to be continuously updated for every change. *Practitioners should therefore always refer to the underlying sources and ensure that their professional knowledge is current and relevant.*
4. It seeks to provide examples where this may be helpful.
5. *If, after due reference to this manual and the underlying requirements, there is uncertainty regarding any material issues please contact the SFC for more information.*

Scottish Funding Council

FINANCIAL GUIDANCE ON RECLASSIFICATION

EXECUTIVE SUMMARY

Background

- From 1 April 2014 FE institutions were classified as public sector bodies
- FE Institutions are still charitable institutions
- Regionalisation places new legislative responsibilities on FE Institutions
- For Resource Budget purposes college will require to their budgets from 1 April to 31 March each year The government financial year
- College Financial Accounts will be for the period 1 August to 31 July the academic year
- This difference between the government financial year and the college academic year means that colleges will require to send to the SFC an additional resource budget return in mid-September each year together with a Resource Review Certificate signed by the Director of Finance or equivalent to ensure that the most accurate resource budget outturn position for the financial year to March can be reported to Scottish Government. The Resource Review Certificate details the checks that are required to be undertaken to certify the accuracy of the September Resource return and to sign off the Review Certificate. The Resource Return and the Certificate do not require to be audited.

Public Sector

- The key services provided by FE Institutions continue:
 - Core post-16 education ("learning for learners")
 - Taxpayer funding to support services
 - Commercial income generation activities
- Governance and control frameworks will however change, with transparency and accountability regarding the use of taxpayer funds as a core element

Scottish Government Regulatory Framework

- The regulatory framework includes compliance with:
 - The Scottish Public Finance Manual (SPFM), as adapted for the FE Sector
 - The HM Treasury 'Consolidated Budgeting Guidance' framework
 - Financial Statements preparation in accordance with the FE HE SORP and the FReM
 - Publication of expenditure details

- Whole of Government Accounts

Scottish Funding Council Requirements

- The SFC will request information regarding:
 - The development of budget submissions within the Scottish public sector framework for approval by the Scottish Parliament
 - Annual forward planning profiles for the financial year
 - Revenue and Capital resource budget control
 - Cash flow management
 - Financial Forecast Returns regarding financial sustainability
 - Whole of Government Accounts

Arm's Length Foundations (ALFs)

- FE Institutions are anticipated to use ALFs to
 - Allow Income and Expenditure surpluses at 31 March to be utilised for future FE service provision
 - Maintain incentives for the generation of commercial income
- An umbrella ALF for the FE sector as a whole exists with ring-fenced reserves for each FE institution where requested
- An ALF must:
 - Be appropriately constituted
 - Be independent of the public sector, including the FE institution

Regional Accounts

- Regional Boards with responsibility for assigned colleges should:
 - assess the applicability of group accounting requirements
 - consider the governance and control arrangements necessary

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CHAPTER 1- BACKGROUND-

CHAPTER 1 SUMMARY

- Scottish FE institutions are part of the public sector from 1 April 2014
- Scottish FE institutions are Arm's Length Bodies (ALBs) for public sector accounting and budgeting purposes.
- Scottish FE institutions, where registered, are still classified as Charities by OSCR (Office of the Scottish Charity Regulator)
- Regionalisation as enacted in legislation will affect the Scottish FE Sector:
 - The Scottish Funding Council remains the primary Scottish Government vehicle for oversight, governance, funding and accountability
 - The SFC role primarily applies at a regional level
 - Regional Strategic Bodies and Regional Colleges have specific legislative obligations to comply with

Reclassification of the FE Sector

1. In October 2010 the Office for National Statistics [reclassified the majority of further education institutions in the UK as falling within the public sector](#)¹.
2. Following the creation in England and Wales of Sixth Form College Corporations on 1 April 2010 (which are classified as Local Government entities) ONS decided to review the classification of all FE colleges in the UK. The key factors examined by ONS are the 'public sector powers' held by government Ministers, and their public agencies (e.g. SFC) over FE colleges. Against this criteria the ONS assessed that all FE colleges should be classed as public sector bodies. The decision was made on the basis of the existing legislation (i.e. before the Post-16 Education (Scotland) Act 2013).
3. The ONS publication quoted European guidance as stating:
 - *“The general government controls a school if its approval is needed for creating new classes, making significant investments in gross fixed capital formation or borrowing; or if it can prevent the school from ending its relationship with government.”*

¹ See Classification of Sixth Form and Further Education Institutions (ONS, 2010)
<http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-articles/class/index.html>

4. The reclassification in Scotland was effective from 1 April 2014.

Status of Scottish FE Colleges

5. For accounting and budgeting purposes affected colleges are “Arm’s Length Bodies”.
6. The Scottish Government [‘Public Bodies Unit’ guide](#)² indicates that Arm’s Length Bodies:

“...unlike executive agencies and NMDs, are not part of the Scottish Government or the Scottish Administration. They carry out administrative, commercial, executive or regulatory functions on behalf of Government; and operate within a framework of governance and accountability set by Ministers”

7. In particular colleges are considered to “carry out administrative, commercial, executive or regulatory functions on behalf of Government. They are normally established by statute; they employ their own staff, who are not civil servants, and manage their own budgets; and are accountable to a board whose members are normally appointed by Ministers”.
8. For all other purposes, colleges, regional boards and regional strategic bodies are incorporated under the relevant Education Acts.
9. The Office of the Scottish Charity Regulator (OSCR) has confirmed that the charitable status of colleges will be unaffected by the ONS reclassification. This is due to the Scottish Ministers exercising powers under section 7(5) of the [Charities and Trustee Investment \(Scotland\) Act 2005](#)³ which allows ministers to specifically disapply the restriction on a Charity being controlled or directed by the Scottish Ministers. **Notably the [disapplication schedule names the individual colleges concerned. As such new colleges may have to be specifically included as charities by later orders.](#)**

Regionalisation

10. Scottish Government policy on regionalisation was [summarised by the Cabinet Secretary](#) as⁴:

“By reinvigorating college governance, I want to reinvigorate colleges. This is fundamental to our plans better to meet the needs of learners and employers in a region through a coherent and sustainable curricula offer,

² See GUIDE TO PUBLIC BODIES IN SCOTLAND <http://www.scotland.gov.uk/Topics/Government/public-bodies/pubs/Guide%20to%20public%20bodies>

³ See <http://www.legislation.gov.uk/asp/2005/10/contents> ; the order to disapply is contained in the Charity Test (specified Bodies) (Scotland) Order 2008 see <http://www.legislation.gov.uk/sdsi/2008/9780110816586/data.pdf>

⁴ See the Post-16 Education Scotland Bill Policy Memorandum page 8 - <http://www.scottish.parliament.uk/S4/Bills/Post-16%20Education%20Bill/b18s4-introd-pm.pdf>

with a sharper focus on outcomes; funding based on regional needs; and strong accountability for regional performance”

11. The legislative basis for regionalisation is established in the [Post-16 Education \(Scotland\) Act 2013](#)⁵. The act is wide ranging covering many aspects including, for FE bodies, such items as:
 - Legislative duties
 - Performance monitoring
 - Planning and consultation
 - Management boards and student representation
 - Action by Scottish Ministers in the event of mismanagement
 - Responsibilities regarding funding
12. The Scottish Funding Council remains the primary oversight, governance, accountability and funding vehicle for Scottish Government involvement in the FE Sector. Funding is anticipated to be specified by the SFC to a regional level. The regionalisation framework may be illustrated as:

Scottish Funding Council		
Regional Colleges <i>(Single College Regions)</i>	Regional Strategic Bodies <i>(Multi-College Regions)</i>	
	Regional Boards	University of Highlands & Islands (UHI)
	Assigned Colleges	Assigned Colleges

⁵ For the act see <http://www.legislation.gov.uk/asp/2013/12/contents> For the development of the act through the Scottish Parliament (e.g policy memorandum, financial memorandum etc) see <http://www.scottish.parliament.uk/parliamentarybusiness/Bills/56717.aspx>

CHAPTER 2– PUBLIC SECTOR

CHAPTER SUMMARY

- The core role and activities of Scottish incorporated colleges should continue as at present, for example:
 - Core post-16 education (“learning for learners”)
 - Taxpayer funding to support services
 - Commercial income generation activities
- Significant changes in governance and control of these activities has occurred
- There is more direct accountability within the public sector framework for the use of taxpayer funds, in particular:
 - The SFC Chief Executive is the Accountable Officer for the FE Sector
 - Increased transparency concerning actions by FE institutions can be anticipated
 - The public sector regulatory and control framework applies unless specific exemption is given by the Scottish Government
 - Relationships with stakeholders will change
 - Governance arrangements will be affected

Continuation of Existing Activities

14. The ONS reclassification in itself does not fundamentally amend or alter core college activities.
15. Colleges will continue to be significant training providers in equipping post-16 year olds with the skills, knowledge and capability they and prospective employers require for productive employment.
16. Training provision will continue to be supported by the provision of taxpayer funds. The ONS reclassification decision however determines that, for incorporated colleges, this funding is being spent directly by public sector bodies, rather than indirectly by third-sector or private sector organisations.
17. Colleges will be still be able, and expected, to undertake commercial income generation activities. As stated in guidance issued⁶:

⁶ SFC Reclassification of Incorporated Colleges Communication No 2 para 1.10

"Incorporated colleges will still be able to engage in activities to generate other income – indeed Ministers expect this drive to continue to support direct public investment."

Changes in Governance and Control

18. There will however be significant changes in how these activities are governed and the relationships between the different bodies involved. These changes arise from a combination of the ONS reclassification and the regionalisation policy direction and will affect:
- Accountability and the Accountable Officer
 - Transparency
 - Regulatory Framework
 - Governance responsibilities
 - Relationships

Accountability and the Accountable Officer

19. The accountability framework for colleges is affected by the new regional structures and legislation. Reclassification to the public sector inherently involves more direct accountability for the proper and appropriate use of taxpayer funding.
20. The accountability framework involves a chain of responsibility and reporting to the SFC, the Scottish Government and, ultimately, to the Scottish Parliament regarding the use and care of taxpayer funds and the achievement of policy objectives.
21. As part of this chain there is a [legal requirement](#)⁷ for an Accountable Officer to be appointed for each aspect of public expenditure. For the Scottish FE sector this will continue to be the SFC Chief Executive⁸. There will be changes to the SFC information requirements in order for the Accountable Officer to fulfil this role given the wider boundary for the FE public sector. This will include an annual Accountable Officer assurance statement provided by College Principals to the SFC Chief Executive. This requirement is to meet to the need for⁹:

".... the provision of an assurance statement from colleges to enable the CEO to provide the Scottish Government with the assurance they require in respect of the colleges accounts and compliance with government accounting requirements."

Transparency

22. Increased direct accountability for the use and care of taxpayer funds will include increased transparency. In particular it can be anticipated that closer political and media attention will be paid to local decisions and actions by regional strategic bodies and colleges.

⁷ Public Finance and Accountability (Scotland) Act 2000 section 15 – see <http://www.legislation.gov.uk/asp/2000/1/data.pdf>

⁸ SFC: Reclassification of Incorporated Colleges, Project Board Update no.2,

⁹SFC: Reclassification of Incorporated Colleges, Project Board Update no.5

23. Examples where such attention may focus could include procurement, remuneration and re-imbursement practices, fraud and irregularity, financial management, project management and conflicts of interest. The [Freedom of Information \(Scotland\) Act 2002](#)¹⁰ will continue to apply to FE institutions.

Regulatory Framework

24. As part of the public sector, Scottish FE institutions will be normally be expected to adhere to public sector regulatory requirements. These include:

Control Area	References	Comments
Regulatory & Control Arrangements	The Scottish Public Finance Manual (SPFM) ¹¹ Financial Memorandum	Adherence with the SPFM will be expected unless specific exemptions have been agreed with or approved by the Scottish Government. More details are provided from paragraph 277 of this manual. Adherence to the Financial Memorandum ¹² between the SFC and FE institutions will be expected. This was established in December 2014. Appendix A – Financial Memorandum
Budgetary Control Arrangements	Consolidated Budgeting Guidance (CBG) ¹³	Adherence will be expected with oversight by the SFC. Specific exemptions from the CBG may apply. Where material interpretation issues arise, early liaison with the SFC is essential. More details are provided in the relevant chapter of this manual.

¹⁰ See <http://www.legislation.gov.uk/asp/2002/13/data.pdf>

¹¹ The SPFM is available on-line at: <http://www.scotland.gov.uk/Topics/Government/Finance/spfm/Intro>
Please note specific exemptions and specifications may apply to the Scottish FE Sector. These are detailed later in the manual.

¹² Available at
http://www.sfc.ac.uk/guidance/GovernanceGuidance/FinancialMemorandum/financial_memorandum.aspx

¹³ Issued by HM Treasury - see <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2014-to-2015> - exceptions & exemptions may apply. See later chapter in this manual.

Control Area	References	Comments
Financial Reporting (Annual Accounts)	FE HE Statement of Recommended Practice (FE HE SORP) ¹⁴	Adherence with the FE HE SORP will be expected however the FReM will apply where its requirements go beyond the SORP or a direction is given.
	Financial Reporting Manual (FReM) ¹⁵	Where material interpretation issues arise, early liaison with the SFC is essential.
	Accounts Direction	More details are provided in the relevant chapter of this manual.
Consolidated UK Public Sector Financial Reporting	Whole of Government Accounts (WGA) – relevant spreadsheet returns and guidance ¹⁶	First year of completion: 2015/16 FY Returns to be based on and reconcile to the audited financial statements of the FE institution at 31 July. A relatively high level of materiality applies to WGA returns so only large individual balances and transactions should need to be specifically identified. Individual colleges are not expected to breach the limits which would require a specific audit of the WGA return.
Policy Implementation	Outcome Agreements	

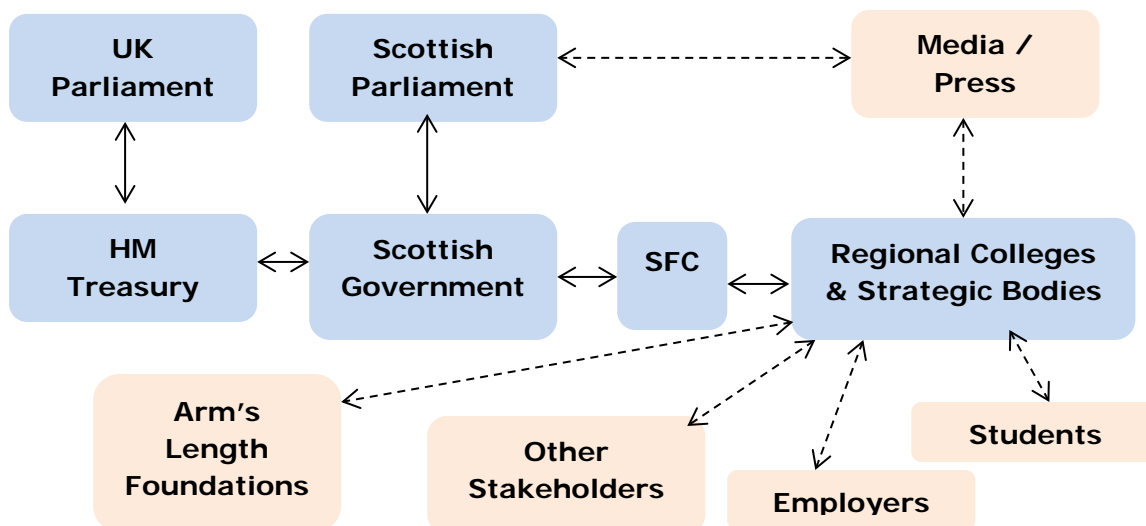
¹⁴ See <http://www.fehesorp.ac.uk/about/the-sorp-board-2/> the FE HE SORP 2015 applies from 1 August 2015 (applicable to 2015/16).

¹⁵ Issued by HM Treasury <https://www.gov.uk/government/publications/government-financial-reporting-manual>

¹⁶ For examples see Scottish Government <http://www.scotland.gov.uk/Topics/Government/local-government/17999/LAacc/WGA> and HM Treasury <https://www.gov.uk/government/publications/whole-of-government-accounts-guidance-for-preparers-2012-to-2013>

Relationships

25. From the above it is evident that FE institutions' relationships with various stakeholders will be significantly affected by the ONS reclassification and regionalisation policy. The diagram below is intended to provide a brief overview of some of the relationships that should be considered.



Notes

Blue = Public Sector Bodies; Tan = Outside public sector

Solid lines: public sector two way relationships regarding policy, accountability, funding, governance and performance

Dashed lines: two-way relationships with parties outside the public sector

Governance

26. A detailed examination of the governance of FE institutions in the new public sector and regionalisation environment is outwith the scope of this manual. It can however be anticipated that the role of FE institution management boards will need to adapt to address the relationship and responsibility changes. A [Code of Good Governance for Scotland's Colleges](#) has been developed.

CHAPTER 3– SCOTTISH GOVERNMENT REGULATORY FRAMEWORK

CHAPTER SUMMARY

Scottish Public Finance Manual [SPFM]

- Sets out key controls that organisations are expected to implement
- Forms the basis for the amendments to the Financial Memorandum
- Some exceptions or specific adaptations apply for the FE Sector relating to:
 - Annual Accounts
 - Banking
 - Insurance
 - Procurement
 - Public Sector Pay Policy
- Severance, early retirement and redundancy terms as specified by the SPFM affect FE institutions

Consolidated Budgeting Guidance [CBG]

- Sets out the UK central government budgetary controls that the Scottish Government and its bodies have to comply with. They include:
 - Resource DEL (RDEL) 'cash' –the majority of FE sector spend
 - Resource DEL (RDEL) 'non-cash' – depreciation and some forms of impairment
 - Resource AME (RAME) – volatile expenditure items including some with no immediate cash impact and including some movements on balance sheet items
 - Capital DEL (CDEL)
- Different budgets must not be added together for control total purposes.
- The ability to spend requires both cash and 'cash' budget cover
- Depreciation and impairment budget are ring-fenced 'non-cash' budgets and cannot be used for any other purpose
- Some transactions require specific treatments under the CBG

Financial Accounting Requirements [FE HE SORP / FReM]

- FE institutions are expected to adopt the FE HE SORP while applying the principles and disclosure requirements of the FReM
- Property, Plant & Equipment will be required to be carried at depreciated replacement cost , not historic cost
- From 1 August 2015/16 the new UK GAAP based FRS102 IFRS based FE HE SORP 2015 will apply
- Practitioners should be aware of the underlying accounting standards supporting both the FE HE SORP and the FReM
- Some transactions will require specific attention

Public Service Reform (Scotland) Act 2010/ Publication of Expenditure

- The Act creates a duty for Scottish Government bodies to publish at least annual data regarding:
 - Payments at or over £25,000
 - Specific expenditure items (e.g. public relations, overseas travel, hospitality and consultancy)
 - Individuals with remuneration at or over £150,000
 - Exercise of functions (e.g. sustainable growth and value for money improvement)
- The annual data for publication should be extracted from the Annual Financial accounts of the college.

Whole of Government Accounts [WGA]

- FE institutions will complete WGA returns on an annual basis for the 2015/16 financial year onwards using their audited annual accounts.
- The returns should be made to the SFC by mid September each year.
- The materiality level for WGA is relatively high, therefore:
 - Specific audit of individual FE institution returns is not required.
 - Only material transactions and balances (e.g. >£1m) will need to be agreed across WGA bodies.

Scottish Public Finance Manual

27. The [Scottish Public Finance Manual](#)¹⁷ (SPFM) is the primary reference source for the control arrangements for bodies sponsored by the Scottish Government. Unless the Scottish Government indicates otherwise the requirements apply to Scottish FE Sector. Some specific exemptions and amendments in respect of the FE Sector are noted below.
28. The SPFM forms a key basis for Annex 1 to the Financial Memorandum (see [Appendix A – Financial Memorandum](#)) between the SFC and FE institutions. The Annex provides specific requirements regarding compliance with the SPFM in order to support the responsibilities of the Accountable Officer regarding the Scottish FE sector.
29. **Where there is any question regarding the applicability of the SPFM or the details of the Financial Memorandum please contact the SFC.**
30. The following table provides a brief summary of the contents of the SPFM with notes of specific exemptions or amendments agreed by the SFC¹⁸. Each section heading is a hyperlink to the SPFM.

No	Section Heading	Comments
1	Background and Applicability	<ul style="list-style-type: none">Legislative background: "spending can take place only if authorised by the Parliament in Budget Acts and must not exceed any amount so authorised in relation to that purpose"Applicability: "Bodies sponsored by the SG essentially means those commonly referred to as non-departmental public bodies" <i>[equivalent to Arm's Length Bodies]</i>Audit reports include: "whether expenditure and receipts have been incurred or applied in accordance with any applicable guidance issued by the Scottish Ministers"
2	Search and Contacts	<ul style="list-style-type: none">If queries on the SPFM arise refer to the SFC
3	Finance Guidance Notes	<ul style="list-style-type: none">These provide notification of amendments to the SPFM
4	Accountability	<ul style="list-style-type: none">Details of Accountable Officer arrangementsMainly directly applicable to SFCIncludes example documentation for AOs

¹⁷ Available at: <http://www.scotland.gov.uk/Topics/Government/Finance/spfm/Intro> For applicability see SPFM paragraphs 7-10.

¹⁸ As at the date of preparation of this guidance manual.

No	Section Heading	Comments
5	Acquisition of Property	<ul style="list-style-type: none"> Acquisition should be based on needs identified in a strategic plan for service delivery Other public bodies with potentially available surplus properties should be identified Advice may be sought from the Property Advice Division Option appraisal should be undertaken and is open to scrutiny
6	Annual Accounts	<ul style="list-style-type: none"> Accounts Directions - formal instruction to prepare accounts FReM Compliance [NOTE: FE Sector compliance with FE HE SORP is expected with some specific adoptions to align material elements with FReM requirements] True and fair view "..where a sponsored body has formed a subsidiary body....consolidated accounts are to be prepared in accordance with International Financial Reporting Standards as adapted for the public sector" Data Protection Act: disclosure of an individual's data (e.g. in remuneration report) requires consent. If not granted this should be stated. Individuals taking up posts should be informed of the disclosure expectations. Retention of Financial Records: Guidance is provided on the nature of records and retention time periods Whole of Government Accounts (WGA)
7	Annual Budgeting Process	<ul style="list-style-type: none"> Outlines the Scottish Parliament budget bill process Copy of Scottish Government & Scottish Parliament agreement available
8	Appraisal and Evaluation	<ul style="list-style-type: none"> Good financial management entails appraisal & evaluation Applies to projects, programmes and policies Detail of evaluation should match scale of spend The Green Book, Appraisal and Evaluation in Central Government is the primary reference document for this purpose Appraisals should consider objectives, options and analysis Risk Management (see separate section below) is relevant Pre Expenditure Assessments are normally made Evaluation- includes consideration of lessons from outturns and outcomes Other supporting documentation provided

No	Section Heading	Comments
9	Audit Committees	<ul style="list-style-type: none"> Audit Committee should be established with terms of reference [see also Appendix A Financial Memorandum paragraphs 17 and Part 2 paragraphs 15-22] Membership: Minimum of 3, all non-executive or independent; Non-exec Chair, one member with recent relevant financial experience Refer to the Audit Committee Handbook. Some judgement may be appropriate. Responsibility to notify SFC Audit Committee of significant issues
10	Auditor General for Scotland	<ul style="list-style-type: none"> Relates to both annual accounts and 3E (economy, efficiency & effectiveness) audits Agree audit timetable Auditor right of access and assistance Information held by Audit Scotland is subject to the Freedom of Information (Scotland) Act Concerns over confidentiality should be raised with Audit Scotland
11	Banking	<ul style="list-style-type: none"> NOTE: "Scottish Government has agreed that colleges can retain their commercial banking arrangements and delay the move to the government banking service until 2016/17 at the earliest. Institutions can extend existing bank arrangements provided they are not extended beyond 2016/17. Any extension beyond 2016/17 requires Scottish Government agreement."¹⁹ The SPFM specifies how commercial banking arrangements should be undertaken (eg two signatories required, secure electronic transfers etc), overdrafts, level of balances and use of direct debits.
12	Bankruptcy Etc	<ul style="list-style-type: none"> Payments to bankrupt organisations should cease immediately Any subsequent payments must be made to the legally correct party and any claims lodged Contract termination should be considered

¹⁹ Per SFC Project Board Update No. 5 page 7

No	Section Heading	Comments
13	Best Value	<ul style="list-style-type: none"> • Duty to: <ul style="list-style-type: none"> ◦ “secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost” ◦ “economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development” • The SPFM provides additional guidance on Best value, including the characteristics of a Best Value organisation. See Guidance for Accountable Officers on the Duty of Best Value.
14	Borrowing, Lending and Investment	<ul style="list-style-type: none"> • “Scottish Ministers currently have no powers to raise extra resources by borrowing” • SFC statement²⁰: Colleges should not enter into new loan arrangements after 1 April 2014 • Treatment of existing borrowing (commercial loans, loans from SFC and LENNARTZ agreements²¹): <ul style="list-style-type: none"> ◦ repayment of the capital element is ‘outwith budget’ (not part of budgetary control). ◦ services charges (e.g. interest, early repayment fees etc) will be charged to resource budget • “any lending should be out of resources authorised by the Parliament by Budget Act and subject, normally, to the existence of specific statutory authority” • “a presumption that all borrowing - excluding agreed overdrafts - should be from Scottish Ministers” Agreed overdrafts should not be used as additional authority to spend but to meet timing differences arising as a result of the receipt of income and it's expenditure. • “Proportionate due diligence should be undertaken with regard to any proposed loan” to a non-public sector party • Lending to 3rd parties may be affected by EC State Aid Rules • “sponsored bodies must not make any investments of a speculative nature”

²⁰Reclassification of Incorporated Colleges, Communication No 8, para 12

²¹ See Reclassification of Incorporated Colleges, Project Board Update No5, Annex B “The repayment of the capital element does not count against the resource budget. This applies to commercial loan repayment and for loans from SFC. Lennartz repayments will be treated as borrowing and not count against the resource budget.

No	Section Heading	Comments
15	Certificates of Assurance	<ul style="list-style-type: none"> Guidance on certificates of assurance to support Accountable Officer (i.e. the SFC Chief Executive) governance statement The SFC has provided the Certificate of Assurance for college Principal/CEO to sign and return to the Accountable Officer of the SFC.
16	Checking Financial Transactions	<ul style="list-style-type: none"> Cannot rely solely on audit (internal or external) Operational level checks required Checks include: e.g. re invoice payments: arithmetic, contract fulfilment or goods received, VAT etc. Sampling may be appropriate: random; systematic; or stratified Automatic IT system reports (eg re errors, irregularities etc) should be investigated and action taken
17	Contingent Liabilities	<ul style="list-style-type: none"> Appraisal before accepting contingent liabilities (SPFM generally referring to guarantees, letters of comfort, indemnities etc) Parliamentary approval may be required Contingent liabilities will normally "be met from within the bodies' own resources" and must be within their legal powers "Any prospective contingent liability in the form of a guarantee, indemnity or letter of comfort must be cleared by the relevant SG Finance Business Partner (or equivalent)". Contact the SFC.
18	Delegated Authority	<ul style="list-style-type: none"> Need to establish delegated authority mechanisms with specified limits relating to: <ul style="list-style-type: none"> Strategic management Financial management Novel or contentious transactions cannot be delegated SG form of delegation provided

No	Section Heading	Comments
19	Disposal of Property, Plant & (Equipment)	<ul style="list-style-type: none"> Assets holdings should be reviewed with surplus assets disposed of quickly (subject to value for money) Notify the SFC of planned disposals Disposals to be at market value (unless otherwise approved – contact SFC); professional valuation to be obtained PPP/PFI scheme assets specifically addressed Detailed guidance available in Appendix B – Asset Disposal Framework - Extract Clawback of grant, or a requirement to re-invest, may apply. Contact the SFC.
20	EU Funding	<ul style="list-style-type: none"> EU Funding applications are encouraged where eligible claims can be made Failure to comply with EU funding terms & conditions can expose the SG and bodies to financial risk Additionality: EU Funded expenditure is not normally expected to displace or replace taxpayer funded expenditure Inform the SFC of any planned EU funding applications / schemes
21	EC State Aid Rules	<ul style="list-style-type: none"> State Aid Rules are intended to prevent the distortion of competition and trade between member states. Typically this may apply to the subsidisation etc of a non-public sector organisation. Breaching State Aid Rules can lead to financial risk Contact the SFC in the first instance or the State Aid Unit with any queries
22	Expenditure & Payments	<ul style="list-style-type: none"> Value for money should be obtained, allowance for risks to regularity and propriety is permitted. Control over payments must be maintained Expenditure should be authorised with appropriate separation of duties Written instructions should be available Payments to be made promptly (SG target is 10 days) Payments in advance should not (normally) be made. The SPFM provides more detail and guidance.

No	Section Heading	Comments
23	Expenditure Without Parliamentary Authority	<ul style="list-style-type: none"> Does not apply to FE institutions
24	Expenditure Without Statutory Authority	<ul style="list-style-type: none"> Generally the statutory ability to incur expenditure requires: <ul style="list-style-type: none"> Legal power for the expenditure / activity Budget <i>[and usable cash balance]</i> Delegated authority (where applicable) If the expenditure is financed from colleges' other /commercial income" (or from an Arm's Length Foundation) "budget cover is not required²² Where the above criteria are not met or unclear for planned or necessary expenditure please contact the SFC

²² Reclassification of Incorporated Colleges, SFC, Communication Number 2 para 1.9

No	Section Heading	Comments
25	<u>Fees and Charges</u> <u>College Controlled Subsidiaries and Direct Activities undertaken by the college for a fee or charge</u>	<ul style="list-style-type: none"> Services may be statutory or non-statutory. Full cost recovery normally expected (see Annex 2 for details). Some exceptions apply: <ul style="list-style-type: none"> Explicitly subsidised services Information provision (charges normally waived – see Annex 3) Competitive services Levies Use of taxpayer resources to subsidise services should be an explicit and documented decision. Specific consideration required where new or amended fees & charges proposed. See Annex 1 and/or contact the SFC. Compliance with competition law required. See also section 21 above on EC State Aid Rules . Organisations should ensure that use of taxpayer resources to support commercial services is defensible [For the FE Sector taxpayer funds should not normally subsidise commercial activities. Contact SFC if there are any queries.] Annual review of services, fees & charges recommended Records and accounts – disclosure of material chargeable services required in financial statements (per FReM) including: the financial objective; full cost; income; surplus or deficit; and performance against the financial objective. In providing this information consideration needs to be given to commercial confidentiality and the view of your auditor must be sought on this matter. <p>The above analysis should be included for each service where the full cost is over £1m or more or is otherwise material in the context of the financial statements.</p> <p>This section applies to both college subsidiaries that are consolidated in the college accounts and to commercial activities directly undertaken by the college for a fee or charge.</p> <ul style="list-style-type: none"> The Group expenditure will score against the resource budget. Any income received from the subsidiary that offsets the expenditure has no resource impact if it is received and spent by the college in the same year. If the subsidiary has reserves at the year end these reserves like the college reserve would be frozen.

No	Section Heading	Comments
26	Fraud	<ul style="list-style-type: none"> • Fraud is dishonest behaviour. It may involve internal staff, external parties and computer fraud. • Ethical standards and a fraud policy statement are expected (see Annex 1 and Annex 2 examples) • Managers carry the prime responsibility and should consult finance and internal audit. All staff should be alert to fraud risks. • Prevention and detection process compliance to be implemented. • Whistleblowing / suspicion reporting process to be in place • Fraud response plan expected (see Annex 3 example) • Risk management is required. Expected to include vulnerability assessment; evaluation of scale; response to fraud risk; evaluation of strategy effectiveness • Audit Committees: to be notified of attempted and actual frauds. The SFC must be notified of any fraud detected.
27	Gifts	<ul style="list-style-type: none"> • Gifts (made or received) are voluntary without the expectation of returns or any preconditions • Gifts include payments; sale or purchases at below market value; income foregone; long term asset loans etc • Gifts made over £50 may have VAT implications • Annual accounts: gifts made may need to be noted (per FReM); finance department should be notified of gifts made/ received; donated assets treatment as required by FE SORP / FReM should be followed • A gift is an ex gratia payment and SFC has specified requirements in the Financial memorandum for gifts made. Appendix A – Financial Memorandum • Hospitality acceptance should consider: <ul style="list-style-type: none"> ○ Not fostering suspicion of conflict of interests ○ Actions should not give impression of influence ○ If in doubt seek advice from the SFC.

No	Section Heading	Comments
28	Governance Statements	<ul style="list-style-type: none"> Forms part of the annual accounts. The SPFM does not specify a set format. Topics will include: <ul style="list-style-type: none"> Governance framework & operation in year Internal compliance Risk management Data security External audit will review the statement
29	Grant and Grant in Aid	<ul style="list-style-type: none"> Grant in Aid : pre-funding supplied to finance ongoing operating expenditure Grant: provided for specific purposes in legislation Grant and grant in aid not normally paid in advance of need Grant terms and conditions will often be required e.g. to protect taxpayer funds and make sure they are used for the purposes intended. Compliance with terms & conditions should be verified. The SFC Financial Memorandum will normally specify terms and conditions for grant in aid and grants, though some grants may have their own specific conditions outwith the general conditions within the Financial Memorandum. Clawback arrangements (eg in the case on sale, transfer or disuse) may apply where grants are used to fund capital assets (e.g. see Annex 1.) Grants made to 3rd parties: <ul style="list-style-type: none"> EC State Aid Rules may apply 3rd party should be assessed (due diligence) for capacity, risk management and soundness Terms of grant (eg period) should be explicit Mechanism to provide early warning of issues required An example framework for 3rd party grants is in Annex 2. The SPFM provides more detail on specific aspects

No	Section Heading	Comments
30	Income Receivable and Receipts	<ul style="list-style-type: none"> • Responsibility for identification and recovery of income receivable • Debtors accounts, invoicing and recovery resolution required • Compliance with statute required (see fees & charges section; and VAT section). • The SPFM provides details on <ul style="list-style-type: none"> ◦ Segregation of duties (e.g. receipts vs invoicing/credit control; invoicing vs credit notes; other measures where staff numbers limited) ◦ Credit control (e.g. policy development; payment terms allowed; agreed actions and time periods for debt recovery) ◦ Monitoring & Management ◦ Debt recovery (reminders & set-off, pursuance or write off; write offs subject to guidance in 'Losses and Special payments' section; cessation of credit facilities to non-payers) ◦ Non-invoiced income should be properly recorded ◦ Allowance for non-payments (e.g. in annual accounts) • The SFC has stated: <ul style="list-style-type: none"> ◦ where Colleges receive funds in advance for overseas fees, commercial contracts, SAAS and other fees and grant income from other sources. The treatment specified is Dr Cash Cr Deferred/Accrued Income Creditor²³. ◦ SDS [Skills Development Scotland] should be classified as commercial activity ◦ This treatment is not available for SFC grants.

²³ Reclassification of Incorporated Colleges, SFC, Communication No. 6, para 7

No	Section Heading	Comments
31	Insurance [See also Appendix A – Financial Memorandum]	<ul style="list-style-type: none"> Public bodies normally required to self-insure. The Scottish Government has agreed that commercial insurance contracts can be extended until 31 July 2018 to enable a business case for its continuation beyond 2018 to be submitted. Exceptions to self-insure are allowed where there is a legal requirement for insurance e.g: Motor Third Party Insurance; Statutory Engineering Inspections; and where bodies are legally required to take out commercial insurance in order to undertake commercial contract work Other exceptions may also be allowed e.g.: <ul style="list-style-type: none"> On value for money terms (losses expected to exceed premia) Buildings insurance required under a lease contract Insurance is for commercial activity (in which case insurance premia should be recovered as part of the commercial activity. If self-insurance applies to commercial activity a notional premia should be calculated as part of the cost of the activity) Loaned assets received Corporate travel insurance for staff travelling abroad on business Refer to the SPFM for a list of all exceptions Where possible indemnities or letters of comfort should be used in lieu of an insurance contract. See also section 17 above on Contingent Liabilities. Where self-insurance applies losses normally anticipated to be charged to existing budgets. Insurance should be seen in the overall context of Risk Management (see separate section) Uninsured losses and claims: should be carefully considered. Liaison with the SFC will be required before any agreed action (e.g. repair or replacement, compensation or rebuttal).

No	Section Heading	Comments
32	Internal Audit	<ul style="list-style-type: none"> • Independent, objective assurance and consulting activity • Internal Audit is a requirement for colleges. • Appraisal of an organisation's internal control system, with actions needed to ensure effective risk management, control and governance arrangements. • Primary responsibility for monitoring control compliance rests with management • "Entities or individuals involved in the external audit of an organisation should undertake non-external audit related work for the same organisation only in exceptional circumstances" • Compliance with Public Sector Internal Audit Standards expected • The SPFM provides details on: <ul style="list-style-type: none"> ○ Internal Control Systems ○ Internal Audit Process ○ Internal Audit Assurance / report to Audit Committee ○ Internal & External Audit Relationship
33	Losses and Special Payments [See also Appendix A- Financial Memorandum]	<ul style="list-style-type: none"> • Guidance for write offs and making special payments. • These should only occur after careful appraisal. • All reasonable action to recover losses should be taken <p>Delegated authority may be required. Total losses over £250,000 are to be notified to parliament in the annual account. The Annex to the Financial Memorandum sets out the limits for losses and special payments any proposed payment above these limits requires SFC approval. See Appendix A – Financial Memorandum</p> <ul style="list-style-type: none"> • A classification structure for recording and reporting different types of losses and special payments is provided in an Annex. For example: <ul style="list-style-type: none"> ○ Fruitless payment: a payment for which liability ought not to have been incurred or could have been avoided ○ Claims waived or abandoned: properly founded claims not progressed ○ Special payments: examples - extra-contractual payments; compensation payment; special severance payment; ex gratia payment

No	Section Heading	Comments
34	Major Investment Projects	<ul style="list-style-type: none"> • Major investment project: > £5m (incl fees & VAT) • Principles apply to all projects (incl <£5m) • There is a clear and definite process for major investment projects and reference to the full SPFM will be required. • Areas to note: <ul style="list-style-type: none"> ○ Specific project governance & oversight framework applies (e.g. specified roles & responsibilities) ○ Projects should fit overall strategy plans and may be examined by the SG's Infrastructure Investment Board (IIB). ○ A business case must present evaluated options. ○ Procurement procedures apply ○ Risk management controls apply ○ Jointly funded projects require special consideration ○ Post implementation / evaluation reviews are required ○ Larger projects should consider the Non-Profit Distribution model (PPP) ○ ICT projects should refer to the ICT manual • Specific guidance references include: <ul style="list-style-type: none"> ○ HM Treasury Green Book ○ Scottish Government's Construction Procurement Manual ○ Gateway Review ○ SG Procurement Procedures Scottish Futures Trust ○ ICT Policies, Standards, Good Practice and Strategies

No	Section Heading	Comments
35	Maladministration	<ul style="list-style-type: none"> • Organisation should set performance standards and a complaints procedure in place • Service deficiencies should be addressed to prevent recurrence. This may include an apology and error correction. The consequences of liability admission should be considered. • A maladministration checklist with examples is available (Annex 2.) • Financial redress may be payable for maladministration: <ul style="list-style-type: none"> ◦ Payments normally limited to actual financial loss or costs. Where the payment is non-taxable this should be considered in determining the amount actually paid. ◦ 'Ex gratia' payments under 'Losses and Special Payments' ◦ May arise from ombudsman recommendations (see at Annex 1); injustice has occurred; in some cases where service has been below the expected standard; where self-regulation has identified maladministration ◦ Payments for claims other than <u>actual</u> financial loss require consideration. A number of factors should be considered before concluding that payment of these is appropriate.
36	Management of Assets [See also Procedure Notes for the Disposal of Exchequer Funded Assets and the Retention of Proceeds by FE Colleges (SFEFC Circular Letter No FE/48/2000)] See also Appendix B Asset Disposal Framework - Extract]	<ul style="list-style-type: none"> • Duty to ensure that assets are properly and well managed. • Asset Registers and Investment Registers (eg re loans & shares held) should be maintained. Expected minimum details are specified in the SPFM. • Physical records (eg deeds, leases etc) should be available • Systems should exist for the management of stores and equipment. Only minimum stores should be held. Control to minimise risk to vulnerable / high theft risk items expected.

No	Section Heading	Comments
37	New Services	<ul style="list-style-type: none"> Relates to where statutory authority to undertake the activity is reliant on proposed legislation. Not expected to be a frequent matter arising. SFC anticipated to liaise regarding any new legislation impacting on FE Sector services
38	Non Salary Rewards [See also Appendix A- Financial Memorandum]	<ul style="list-style-type: none"> Guidance on propriety and regularity aspects when introducing non-salary rewards. The Annex provides some details, noting it is a sensitive area. Openness and transparency expected. Clear policies to exist. Non-salary benefits include: gifts, vouchers, subscriptions (eg clubs, gyms), charity donations, cars. Please consult the SFC before implementing a non-salary reward scheme The Public Sector Pay Policy does not apply but colleges are required to have regard to it and ensure the affordability of any settlement made. Reasonable provision may be made for amenities and recreational facilities for the use of all staff but care should be taken to ensure this is appropriate. Where vouchers or discounts are provided bias towards certain companies / parties should be avoided. Tax implications of schemes should be assessed

No	Section Heading	Comments
39	Overpayments	<ul style="list-style-type: none"> • In principle any overpayment to a 3rd party should be recovered. • Each case however made needs assessment on its own merits. The SPFM provides suggested criteria and also a decision matrix (see the Annex). This may include an assessment of the good faith exhibited by the 3rd party. • The main grounds for non-pursuance is failure of a cost-benefit assessment which should only occur in exceptional cases. • Non-pursued overpayments may be classified within 'Losses and Special Payments' • The SFC should be informed before abandoning any (material) collective overpayment recovery. A collective overpayment is where a group of parties have been overpaid. • Where fraud is suspected prosecution or disciplinary action should be considered. <i>[Reference to internal audit and action to prevent recurrence may also be considered]</i>. • The SPFM has specific guidance on some situations (e.g. overpayments to contractors; overpayments to employees etc) • Where an overpayment was expenditure supported by EU Funding the EU requirements should be complied with

No	Section Heading	Comments
40	Public Private Partnerships Non Profit Distribution	<ul style="list-style-type: none"> • The SFC have stated “The Scottish Government and SFC has already contacted those Colleges that have NPD [Non-Profit Distributing] projects on the issue of the impact of the ONS and will also take steps to mitigate the impact in respect of these projects” • The SPFM provides an overview of the use of NPD for major projects. Key points are noted below. • NPD only used where value for money exceeds conventional procurement • Expert advice to be sought in early stages (see the Scottish Futures Trust). • External audit discussions recommended. • Project management mainly follows the requirements of the ‘Major Investment Projects’ section • Accounting treatment: generally the FReM / FE HE SORP will require a case by case assessment of the control of the asset(s) to determine the accounting treatment (using principles established for the private sector in IFRIC 12) • The budget treatment/accounting treatment should be discussed with the SFC
41	Procurement	<ul style="list-style-type: none"> • The Scottish Government’s Procurement Directorate has indicated that it expects colleges to continue to use the services of APUC²⁴ • The SPFM generally requires: <ul style="list-style-type: none"> ○ Genuine competition ○ Separation of budgetary and procurement authority ○ Reference to the Scottish Procurement Policy Handbook, the Procurement Journey (toolkit), the Construction Procurement Manual, and other guidance issued by SPCD, including Scottish Procurement Policy Notes ○ Justification and specific expenditure limits for the use of consultants

²⁴ APUC: Advanced Procurement for Universities and Colleges, see <http://www.apuc-scot.ac.uk/>

No	Section Heading	Comments
42	Risk Management	<ul style="list-style-type: none"> • Risk management requires an organisations' risk profile to be recorded • Risks to be prioritised in relation to objectives • All identified risks should be assigned to a 'risk owner' • Risk assessment should evaluate both probability and impact • An organisation's risk appetite should be established before considering actions (tolerate; treat; transfer; or terminate) • Risk management actions to consider: feasibility; cost; probability; potential impact; exploitation of positive event impacts • Role of Audit Committee and Internal Audit highlighted • Further guidance e.g. HM Treasury Orange Book
43	Scottish Parliament Public Audit Committee	<ul style="list-style-type: none"> • This section generally relates to dealings with the Scottish Parliament Public Audit Committee, for example if the committee seek evidence on audit reports. • Please liaise with the SFC in this situation, since the SFC Chief Executive is the Accountable Officer
44	Severance, Early Retirement and Redundancy Terms [see also Appendix A- Financial Memorandum]	<ul style="list-style-type: none"> • Must consider regularity; propriety and value for money • Refer to SFC prior to making any offer (verbal or written) • Voluntary resignations (outwith an approved scheme) should not normally attract additional compensation. Avoidance of negative publicity, normal management processes and disciplinary action are not grounds for offering compensation. • Nothing in the SPFM overrides legal compliance of employment law.
45	Spending Reviews	<ul style="list-style-type: none"> • Spending Review (SR) process in Scotland is normally undertaken every two or three years, scheduled around the timeframe of UK spending reviews. • Precise arrangements vary from one review to the next. • SPFM provides a brief overview of the Barnett Formula, Statement of Funding Policy and allocation to portfolios • Each portfolio is generally set an agreed three year budget. Additional pressures and funding of new initiatives are expected from within the agreed spending review settlement

No	Section Heading	Comments
46	Suspense Accounts	<ul style="list-style-type: none"> • Suspense account use should be minimal. • Possible reasons for suspense use: temporary coding uncertainty; tax deductions etc; VAT; receipts payable to other parties (eg acting as agent) • Suspense account balances must be supported and justified to external audit. Entries to be resolved for annual accounts preparation. • Each suspense account to have specified manager (duties listed in SPFM e.g. action to clear, write off, resolve items). See checklists: Annex 1 and Annex 2. • Minimum review & reconciliation period – every 3 months
50	Tax Planning and Tax Avoidance	<ul style="list-style-type: none"> • Employees (for tax purposes, including board members where relevant) to be paid via payroll with tax deducted at source. Please contact SFC if alternative arrangements exist. • Avoid tax arrangements that are primarily intended to reduce tax liabilities • Please contact SFC before utilising tax advisors or implementing tax schemes • Procurement arrangements should be based on fair and transparent processes, legal obligations and value for money considerations. They should not be based on tax advantages or arrangements with no underpinning economic basis. • Potential exclusion of bidders is addressed in the SPFM. Contracts may potentially prohibit contractor use of some tax arrangements. • Harmful tax competition (for example involving offshore financial centres) should be treated with caution. • PPP/NPD schemes may require particular attention to bidder tax arrangements • Transfer of real estate or assets can give rise to tax issues. (eg capital gains tax). Please liaise with SFC in these situations.

No	Section Heading	Comments
51	VAT	<ul style="list-style-type: none"> • The VAT status of colleges will not change or be impacted as a result of the reclassification. This means that colleges will still apply the partial exemption regulations after the 1 April 2014. Colleges will need to inform their local HMRC office of the change in status. • Treatment of existing LENNARTZ agreements: <ul style="list-style-type: none"> ◦ repayment of the capital element is 'outwith budget' (not part of budgetary control). ◦ service charges (e.g. interest, early repayment fees etc) will be charged to resource budget • The SPFM generally sets out the VAT responsibilities of 'Government Departments'. The pre-reclassification VAT situation is expected to continue for FE institutions.
52	Glossary	<ul style="list-style-type: none"> • Useful reference section

Financial Control Frameworks

32. FE institutions will need to account for their utilisation of resources in three ways from 1 April 2014 as a result of the ONS reclassification:

Area of Control	Control Framework
Resource (Budget)	Control of taxpayer resources utilised by the FE Sector in accordance with the requirements of HM Treasury's Consolidated Budgeting Guidance .
Accrued Income & Expenditure	Accountability for the stewardship of taxpayer resources as demonstrated by financial statements prepared in compliance with the FE HE SORP and the FReM.
Cash	Control of cash to ensure that Scottish Government use of cash (Net Cash Requirement) does not exceed the amount authorised by the Scottish Parliament.

Consolidated Budgeting Guidance

33. It is important to note that HM Treasury apply the following frameworks to central government financial management:
- National Accounts (ESA 95) which is the primary basis for the controls in the [Consolidated Budgeting Guidance](#)²⁵ [CBG 1.7]
 - Financial Reporting (FReM based financial reporting requirements) [CBG 1.8]
34. While they are related, these frameworks are not fully aligned. The information requirements of each can differ, due to the different control mechanisms used. Practitioners should be aware that not all sections of the CBG will be directly relevant to Scottish FE colleges, however Chapter 9 [Arms-Length Bodies] is generally applicable.
35. One role of the Consolidated Budgeting Guidance ([CBG](#)) is to determine the impact of transactions on the 'Surplus on the Current Budget' [CBG 1.25, 1.30]. In effect the identification of cash or 'near cash' transactions (such as normal creditors) identifies the short-term impact on public sector borrowing.
36. Cash flow, cash balances and near cash items (normal creditors, debtors etc) are therefore key elements of financial management in the CBG.

²⁵ References cited to the CBG are to the Consolidated Budgeting Guidance 2014-15. See <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2014-to-2015>.

37. In particular the ability to incur expenditure on items within the budget framework requires *both*:

Approved budget (‘budget cover’)	<u>And</u>	Sufficient Cash (e.g. via grant or other activities etc)
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38. Cash or reserve balances do not equate to budget cover. They do not provide authority to spend and are effectively unusable unless budget cover or an exemption is provided. Equally budget cover (cash budget) without sufficient cash balances cannot be utilised.
39. Consequently FE institutions will need to account for their utilisation of resources in three ways from 1 April 2014 as a result of the ONS reclassification:
- Cash terms
 - Resource terms [Budgets per the consolidated Budgeting Guidance]
 - Accrued I&E terms [Financial statements per the FE HE SORP & FReM]
40. A reconciliation will be required between accrued income and expenditure, as presented in the financial statements, and the various control totals for the budgetary framework. This ‘Expenditure to Resource Reconciliation’ is outlined from paragraph 1300 of this manual.

Budget Categories: Departmental Expenditure Limit (DEL) Annually Managed Expenditure (AME), Outwith Budget

41. The following table provides a simplified overview of the CBG budget classifications.

RESOURCE	CAPITAL
RDEL Cash (& near cash) Resource (revenue) operating costs and income	CDEL Investment in and disposal of assets e.g. Capital expenditure & book value of asset sales.
RDEL Non-Cash E.g. depreciation & some impairment	
RAME Volatile (e.g. some impairments) &/or some non-cash items.	CAME Volatile &/or some non-cash transactions. Rare to have transactions in this category.

42. In specific situations HM Treasury may agree that some transactions are 'Outwith Budget.' Such items do not count against budgets.
43. Items that are outwith budgeting for colleges include borrowing and Lennartz principal repayments for debt incurred prior to 31 March 2014 and provisions recognised and included in college balance sheet prior to 31 March 2014.
44. Generally the budget categories above may be regarded as seeking to differentiate between:
- Capital (e.g. investment in & disposal of assets) and Resource (operational expenditure & income)
 - Volatile and non-volatile transactions
 - Cash (or 'near cash') transactions and non-cash transactions

More detail on the budget classification approach is provided below.

Total Managed Expenditure

45. 'Total Managed Expenditure' (TME) is often used to state total public spending. TME comprises public sector current net expenditure and capital net expenditure. It includes depreciation. [[CBG 1.106-1.109](#)]
46. TME can be expressed as the sum of the following budgets [[CBG 1.110 – 1.114](#)]:

Budget	Description
Departmental Expenditure Limit (DEL) (Resource or Capital)	DEL generally applies to normally anticipated operational and capital transactions. DEL is set at each spending review. Generally 3 year planning figures are provided to support medium term planning. Flexibility between years may be allowed (this applies at the Scottish Government level only). HMT approval required for such flexibility and this flexibility is extremely limited
Annually Managed Expenditure (AME) (Resource or Capital)	AME is set annually, since the items included are usually regarded as too volatile to specify for more than one year, for example benefits (welfare) spend is often classified as AME. Unless clearly specified as being AME items should be treated as within DEL.

Resource and Capital

47. Budgets (DEL, AME) may relate to either Resource or Capital:

See [CBG Chapter 1 Appendix 1 Table 1A](#)

Resource	<p>Expenditure on an accruals basis, including administration costs, pay, superannuation liability charges and other pensions contributions or current service pensions costs, grants to individuals, subsidies to private sector companies.</p> <p>Establishment of provisions, movements in value of provisions, and release of provisions (as well as the expenditure offset by the release of the provision – except provisions related to capital expenditure).</p> <p>Profit/loss on disposal of assets.</p> <p>Depreciation and impairments on assets.</p> <p><i>Less income treated as negative DEL/AME, for example sale of services.</i></p> <p><i>Excludes</i> revaluations charged to revaluation reserve.</p> <p><i>Note:</i> grant in aid to colleges is excluded from budgets.</p>
Capital	<p>Expenditure on new fixed assets on an accruals basis, includes assets bought under finance leases and transactions that are in substance borrowing (i.e. on-balance sheet PFI deals).</p> <p><i>Less</i> Net book value of sales of fixed assets.</p>

Depreciation and Impairment

48. Some transactions may be specified as 'non-cash', for example depreciation and impairment. These budgets are ring-fenced and cannot be used for any other purpose [[CBG 3.21](#)].
49. Some forms of impairment [normal loss or damage; abandoned projects; over-specification] score against RDEL [[CBG 3.27-3.29](#)]. **This should be regarded as the default treatment unless otherwise confirmed.**
50. In some situations [catastrophe; unforeseen obsolescence; other situations such as specific write downs] impairment may be allowed to score against AME. [[CBG 3.30](#)]. **Where this is considered to arise inform the SFC immediately to discuss the budget treatment.**

Net Cash Requirement

51. The UK Parliament approves a Net Cash Requirement (NCR) which specifies how much cash is available to support approved expenditure. Although not a formal part of the

Consolidated Budgeting Guidance it is clear that transactions within the CBG framework affect the NCR, and that the NCR limit may affect the ability to utilise approved budgets [CBG 1.23]. The Scottish Parliament sets a cash authorisation limit for overall Scottish Government expenditure. This therefore requires control of cash payments by all public sector bodies.

52. Monitoring of the NCR will therefore routinely be linked with the monitoring of RDEL, CDEL, RAME and CAME. [See later section CHAPTER 4–SCOTTISH FUNDING COUNCIL REQUIREMENTS]

Consolidated Budgeting Guidance: Specific Transactions

Depreciation & Impairment: RDEL Non-Cash Budget

53. The RDEL depreciation and impairment budget is regarded as 'non-cash'. **It is ring-fenced and cannot be transferred for an alternative use.** It is however permissible for 'cash budget' (e.g. RDEL cash) to be transferred to cover depreciation expenditure.

The Scottish Government has agreed that FE institutions will receive an additional fixed amount of 'non-cash' budget cover for depreciation. This ensures that colleges should not normally have to utilise 'cash' budget cover for depreciation and impairment. It should be noted that a consequence of this is that operating activities may therefore result in increased cash balances, since the depreciation charge no longer has to be covered by cash generating activities. **Any increase in cash balances however does not provide authority to spend. Increased cash balances can only be spent if there is 'cash' budget authorisation or there are items of spend which are regarded as 'outwith budget'.**

Depreciation: Impact of Deferred Capital Grants Treatment

54. If deferral of capital grants is allowed under the FE HE SORP²⁶ the release of the deferred element of the grant to income and expenditure will reduce the budget cover required. **In effect the depreciation budget only has to cover the impact of net depreciation after deducting the release of deferred capital grants.**

²⁶ Except for government grants for land the FE HE SORP 2015 (<http://www.fehesorp.ac.uk/wp-content/uploads/2014/03/Statement-of-Recommended-Practice-FRC-Approved.pdf> section 17) allows either the deferred grants treatment (accrual model) or performance model to be adopted. For grants for land the performance model must be applied (FE HE SORP 2015 paragraph 17.8)

55. An illustrative example is provided below:

	Asset	Capital Grants Deferred	Income & Expenditure	RDEL (non-cash) Budget
RDEL (non-cash) Budget for year				60
Opening Balances:	1,000	(750)		
Asset depreciation charge for year	(200)		200	
Release from deferred capital grants for the year		150	(150)	
Closing balances	800	(600)	50	
Net amount of Income & Expenditure Charged to RDEL (non-cash) Budget			(50)	50
RDEL (non-cash) Under (over) spend				10

Impairment: RDEL Budget

56. Impairments chargeable against RDEL (rather than RAME) include:

Impairment Reason	Comments on Use of RDEL [see CBG para 3.29]
Normal business operations	<p>The FE Institution has a choice about how it manages assets to reduce the risk of damage, accident and theft.</p> <p>This includes revaluation losses due to the consumption of economic benefits (e.g. physical damage) or deterioration in the quality of service provided by the asset [CBG 3.47]</p> <p>Stock impairment normally chargeable against RDEL (unless stocks relate to capital) [CBG 3.32]</p>
Abandonment of projects	Abandonment results from managerial decisions, and can be an indicator that a stronger project approval process and business case evaluation is necessary.
Over-specification (gold plating) of assets	Gold plating is the unnecessary over specification of assets; this could be prevented through improved control processes. Construction to a necessarily high standard for legitimate reasons (security for example) should not be considered gold plating

57. Impairment of debtors will normally be chargeable against RDEL, assuming that the income was originally credited to RDEL.

Impairment: RAME Budget

58. Some impairments may be chargeable against the RAME (rather than RDEL) budget. These are:

Impairment Reason	Comments on Use of RAME [see CBG para 3.30]
Catastrophe	Outside the normal experience of a department
Unforeseen obsolescence	May arise as a result of changes to legislation Replacement of an old asset with a new technologically advanced asset is not normally 'unforeseen obsolescence' since the investment appraisal of the new asset should have covered the option of continuing to use the old one. <i>[i.e. this situation does not count as 'unforeseen']</i>
Other	Includes write downs: <ul style="list-style-type: none"> • of development land to open market value • of specialised properties from depreciated replacement cost to open market value prior to disposal • of newly constructed specialised properties to depreciated replacement cost on the initial valuation.

59. **In all cases please liaise with the SFC from the outset to ensure correct budget classification.**
60. **Early notification to the SFC of any potential impairments is essential in case additional RAME budget cover needs to be requested.**

Stocks

61. The consumption of stock during the year will normally be chargeable against RDEL. The purchase of stock will normally score against the Net Cash Requirement for the year. Stocks should be valued at cost or current replacement cost. If not used they should be written down to net realisable value. [[CBG](#) 3.55-3.56]
62. Stock impairments reflect the accounting treatment:

- Normal treatment is that stock acquisition does not impact on budgets, but use and write off do. In this case all impairments or write-offs would impact Resource DEL regardless of the cause;
- Exceptionally, the acquisition of some stock impacts in capital budgets. Stock is then analogous to tangible fixed assets and the rules for DEL/AME impacts in relation to fixed assets would apply (see above).

Revaluations

63. Revaluation losses due to the consumption of economic benefits are chargeable against RDEL (see paragraph 566).
64. Revaluation losses due to changes in market price should be charged against the Revaluation Reserve where a balance for the asset exists. Where the Revaluation Reserve balance for the asset is exhausted any remaining loss is charged to the Income and Expenditure Account. [CBG 3.47-3.50]
65. The budget treatment of revaluations is as follows:

Revaluation Category	Budget Treatment
Revaluations above Historic Cost	These are taken to the Revaluation Reserve and will not score against budgets.
Revaluation Losses (below historic cost) due to change in Market Prices (paragraph 64 above)	These are charged to RDEL [CBG 3.49]
Revaluation Losses (below historic cost) due to consumption of economic benefits or service quality deterioration	As noted above (paragraph 63) these are charged to RDEL as an impairment

Employee Benefits: Accrued (Untaken) Annual Leave

66. IAS 19, as adopted by the FReM, will require the recognition of accrued annual leave as a liability or prepayments of employee compensation as an asset. It is the movement, positive or negative, on these accruals that impacts against Resource DEL. [CBG 3.53-3.54]. **Unless immaterial, this treatment is mandatory to align/comply with the FReM.**

Employee Benefits: Pensions (Multi-Employer Unfunded Schemes)

67. Colleges are members of the Scottish Teachers Superannuation Scheme (STSS) which is a large unfunded multi-employer scheme. IAS19 allows for colleges to only account for the contributions payable to the pension scheme's administrator. [also see the FReM 14/15 page 41 adaptations and interpretations, and CBG 12.2-12.5]. Employer contributions are chargeable against RDEL.

Employee Benefits: Pensions (Multi-Employer Funded Schemes)

68. Colleges are often also members of Local Government Pension Schemes (LGPS). Colleges should recognise the scheme on the balance sheet where:
- There is a deficit in the pension fund;
 - The deficit is identifiable as belonging to the employer; and
 - The employer has a legal or constructive obligation to make good a deficit in the pension fund.
69. The annual movement on the pension liability itself scores against RAME. [\[CBG 12.9\]](#)
70. The actual employer contributions costs to the scheme for the year are charged against resource DEL. [\[CBG 12.9\]](#)
71. The budgeting treatment may be represented as:

Pension Transaction	DR Budget / [Account]	£000	CR Budget / [Account]	£000
Increase in pension liability	RAME [I&E]	110	Pension Liability [Balance Sheet]	(110)
Employer contributions in year	RDEL	100	Cash [Balance Sheet]	(100)
Pension liability reduced by employer contributions in year	Pension Liability [Balance Sheet]	100	RAME	(100)

72. The net impact of these entries is summarised as:

Pensions: Summary Impact on Budgets (£000)		
RDEL	100	Employer contributions in period
RAME	10	'unpaid' liability increase [per balance sheet]
Total Charge(s) in I&E	110	Total charge per accounting standards

Provisions

73. Provisions created and included in the college balance sheet on or before 31 March 2014 will not score against budgets. They are regarded as 'outwith budget'. FE institutions should ensure that they have sufficient cash available to settle such provisions, for example from cash balances held at 31 March 2014; commercial activities; reduction in need for cash coverage of depreciation charges or other outwith budget cash generation. **Settlement of such provisions should not be included in planned FE institution resource expenditure budgets.**

74. Provisions created after 31 March 2014 will initially score against RAME when they are created. It is not until they are settled (e.g. paid in cash or become definite enough to be converted to a creditor) that a charge is made to RDEL. [[CBG 3.66-3.69](#)].

75. The budgeting treatment may be represented as:

Provision Transaction	DR Budget / [Account]	£000	CR Budget / [Account]	£000
Year 1: Create Provision	RAME [I&E]	50	Provision [Balance Sheet]	(50)
Year 2: Estimated Provision Increased (eg revision of estimate &/or unwinding of the Present Value discount)	RAME [I&E]	10	Provision [Balance Sheet]	(10)
Year 3: Amount of Settlement Determined. (e.g. final amount to pay £55K so reduce provision by £5k).	Provision [Balance Sheet]	5	RAME [I&E]	(5)
Year 3: Settlement Made	Provision [Balance Sheet]	55	Cash [Balance Sheet]	(55)
Year 3: Charges to RAME reversed and charged to RDEL	RDEL	55	RAME	(55)

76. The net impact of these entries is summarised as:

Provision: Summary Impact on Budgets [Net position after 3 Years] (£000)		
RDEL	55	Cost of Settling Provision charged to RDEL in the final year [CDEL provisions may occur but are rare; in very rare cases the settlement may be charged to RAME]
RAME	0	Although initially charged to RAME the amount of the provision, including later adjustments, is reversed out to RDEL when settlement is made (or payment becomes certain enough for a creditor to be recognised). Therefore the net amount charged to RAME over the life of the provision is nil.

Total Charge	55	Total charge to RDEL for the provision
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Asset Sales

77. The SFC has agreed with the Scottish Government that Scottish FE Institutions have special treatment regarding the normal controls that exist for asset sales. [\[See Procedure Notes for the Disposal of Exchequer Funded Assets and the Retention of Proceeds by FE Colleges \(SFEFC Circular Letter No FE/48/2000\)\]](#). Extracts are provided in [Appendix B](#)
78. [Asset Disposal Framework - Extract](#).
79. The normal HM Treasury limits to the amount of gain that can be taken to RDEL (as expressed in [CBG 6.13](#)) apply. The limits on the profit above net book value that can be taken to RDEL is 5%. If the profit is greater than 5% contact the SFC.
80. The following framework has been agreed by the SFC:
- The objective is to allow all gains to be retained by the FE Institution for re-investment in assets relating to the delivery of further and higher education.
 - Sale of treasury funded assets is expected to occur for open market value. Disaggregation of assets should only be undertaken where this is necessary to achieve best value.
 - Where open market value (Sale price) is less than £500,000 no SFC consent is required to dispose of treasury funded assets but SFC must be advised of proposed sale
 - Where the open market value (sale price) of the treasury funded asset is greater than £500,000 please contact the SFC
81. **If in doubt or to request advice contact the SFC**
82. For budget control purposes the proceeds from the sale of an asset are split between an element that covers book value, which impacts on the balance sheet, and a profit or loss on disposal, which goes through the Income & Expenditure Account. The book value of the disposal is a benefit to the capital budget. The profit / loss on sale scores in the resource budget. **Profit is a benefit to RDEL while loss is a cost.** [\[CBG 6.11-6.14\]](#)
83. The budgeting treatment may be represented as follows where an asset with a carrying value of £300K, with a Revaluation Reserve balance of £200K, is sold for £310K.

Asset Disposal Accounting Entries (£000)		CDEL Budget £000	RDEL Budget £000
CR Asset	(500)		
DR Revaluation Reserve	200		
DR Cash	310	300	10
CR I&E - Gain	(10)		
CDEL Gain		(300)	
RDEL Gain			(10)
Net Total	0	0	0

Insurance

84. Insurance premia are current costs which are chargeable to RDEL. Prepaid insurance should be accrued where material.

Arms-Length Foundation Transfers

85. Transfers to and from Arms-Length Foundations will score against RDEL. Transfers to Arms-Length Foundations are expected to feature in the financial statements as expenditure within operating surplus.

Interests in Other Bodies

86. FE institutions with interests in other bodies should continually review the relationship to establish whether treatment as a subsidiary or joint venture is required. This can affect the extent of budget required [[CBG 9.7-9.9](#)]

Service Concession Arrangements (SCA) [PPP/PFI/NPD]

87. The classification of Service Concession Arrangements [PFI etc] is central to the accounting and the budgeting treatment.[\[CBG 13.3 onwards\]](#) In particular such schemes must be classified in two different ways:
- o As being on or off the balance sheet under FReM (IFRS based) accounting standards [[CBG 13.10](#)]
 - o As being on or off balance sheet for National Accounts purposes [[CBG 13.9-13.10](#)]. **It is this classification which determines the budgeting and control treatment of an SCA / PFI scheme.**

88. For SCA/ PFI projects that are on balance sheet for National Accounts purposes the unitary charge must be analysed into [\[CBG 13.17-13.18\]](#):
- Service charges (RDEL)
 - Repayment of the imputed loan to the private sector (outside budgets)
 - the full amount of interest charged on the loan (RDEL)
 - Depreciation of the asset (RDEL)
89. For SCA/ PFI projects that are off balance sheet for National Accounts purposes the unitary charge is regarded as the purchase of services and will normally be chargeable to RDEL [\[CBG 13.19\]](#).
90. **FE institutions with SCA / PFI / NPD schemes should liaise with the SFC to ensure that they are appropriately classified and the correct budgetary treatment is applied.**

Existing Borrowing Repayments [incl Lennartz]

91. Should be treated as follows:
- repayment of the capital element to be 'outwith budget' (not part of budgetary control).
 - Service charges (e.g. interest, early repayment fees etc) will be charged to resource budget (RDEL)

Use of Reserves

92. Where FE institutions carry forward distributable reserves from 31 March 2014 it should be noted that they are unlikely to be able to utilise these reserves. Expenditure financed by the use of reserves counts as spending in budgets.[\[CBG 9.15\]](#)

Financial Statements: FE HE SORP/ FReM Compliance

92. The Scottish Government has agreed with relevant parties that Scottish FE institutions should adopt the FE HE SORP while applying the principles and disclosure requirements of the [FReM](#). This particularly applies where the FReM requirements go beyond the FE HE SORP or there is a direction to do so.
93. For 2015/16 the FE HE SORP 2015, based on FRS 102 (IFRS based UK GAAP) will apply.

Financial Reporting Manual [FReM]

94. The [FReM](#) is primarily based on International Financial Reporting Standards (IFRS) which have been formally adopted by the EU.
95. Typically the FReM will indicate which standard(s) are to be applied to specific transactions with a statement of any specific further interpretations that are required for public sector application. This may include the limitation of options that would be allowed under IFRS, specific departures from IFRS requirements, or additional guidance and disclosure requirements.
96. The application of the FReM to Arm's Length Bodies, such as Scottish FE institutions, is specifically addressed [[FReM](#) section 1.4]
97. It is therefore important that in applying the FReM practitioners and preparers of the financial accounts are familiar with:
 - The underlying IFRS standards (IFRS, IAS) and IFRS interpretations (IFRICs, SICs) referenced by the FReM. These can be accessed free of charge following registration at the [IASB website](#)²⁷.
 - The FReM public sector interpretations applied. A summary table is provided in the [FReM](#) [page 36 Chapter 6].

FE HE Statement of Recommended Practice

98. The [FE HE SORP 2015](#) will apply to Scottish FE institutions from 1 April 2015.
99. The FE HE SORP 2015 was developed by a SORP board including FE and HE institution representatives, sector regulators and funders; audit representatives; and the ASB/FRC. It is largely based on the [IFRS based UK GAAP standards](#)²⁸ as issued by the FRC.
100. Practitioners will need to familiarise themselves with the FE HE SORP 2015 requirements. In particular practitioners may wish to be aware of two sources of interpretation of IFRS based requirements:

²⁷ To register to access IFRSs, IASs, IFRICs, and SICs see <http://www.ifrs.org/IFRSs/Pages/IFRS.aspx>

²⁸ See the Financial reporting Council <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-reporting/The-future-of-UK-GAAP.aspx> In particular FRS 100 and FRS 102 will be the primary reference documents.

- FRS 102 (UK GAAP) Interpretations: There are some significant differences between FRS 102 and IFRS standards. [FRS 102](#) Appendix II (page 291) provides a table summarising these.
- FE HE SORP 2015 Interpretations. [The FE HE SORP 2015](#) provides interpretations to assist in the implementation of FRS 102 in relation to government grants, non-exchange transactions (eg donations) and service concession arrangements (PFI etc)²⁹.

101. Generally the FReM will specify the extent to which a specific standard from the main frameworks above, is to be implemented. Where specific adaptations or interpretations of the IFRS standards exist the FReM will specify them.
102. Key Areas In implementing the [FE HE SORP 2015](#), with due regard to the requirements of the FReM, practitioners should be aware of the following key areas:

<p>Deferred Grant Treatment (Capital Grants)</p>	<ul style="list-style-type: none"> • <u>Audit Scotland have agreed that an accruals based 'deferred grant' treatment will be acceptable. This treatment is only applicable to grants originated from government from 1 April 2015.</u> • This would be a departure from the FReM which indicates³⁰: <ul style="list-style-type: none"> ○ Grants are not to be used to reduce the depreciation cost of an asset ○ Grant deferral is limited to situations where a grant condition remains unfulfilled. This limitation does not apply to return obligations (e.g. dependent on continued operational use) unless a breach of such an obligation is expected.
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²⁹ See paragraph 1.7 of the FE HE SORP 2015 (<http://www.fehesorp.ac.uk/wp-content/uploads/2014/03/Statement-of-Recommended-Practice-FRC-Approved.pdf>)

³⁰ See interpretation of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance as detailed on page 41 of the FReM <https://www.gov.uk/government/publications/government-financial-reporting-manual>

Asset Valuation	<ul style="list-style-type: none"> • <u>Asset valuation at ‘current value’ in compliance with the FReM will be required</u> • The FReM states³¹ that assets are expected to be carried at Fair Value as interpreted by the FReM • For IAS 16 Property, Plant & Equipment (e.g. assets in operational use) this is interpreted³² to require valuation on an Existing Use Value (EUV) basis. • In some situations³³ Depreciated Replacement Cost may be used to establish Existing Use Value • Practitioners should be familiar with the asset valuation requirements of the FReM. For property, plant & equipment refer particularly to Section 7.1 of the FReM 2014/15 • Practitioners should note that valuation information will therefore be required from 1 April 2014. • Practitioners should note that the FReM has adopted³⁴, with interpretation, the requirements of IFRS 13 Fair Value Measurement from 1 April 2015.
Untaken Annual Leave (accumulating paid absences)	<ul style="list-style-type: none"> • An estimate of the liability for annual leave earned but not taken as at the balance sheet date will be required • The FReM³⁵ adopts IAS 19 Employee Benefits with no interpretation or adaptation exempting bodies from (where material) accruing for such liabilities (annual leave etc) at the balance sheet date

³¹ See [FReM 14/15](#) paragraph 2.1.4 “Financial statements should be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in this Manual.”

³² See [FReM 14/15](#) page 40 re IAS 16 Property, Plant & Equipment interpretation [FReM page 40] : “For ‘in use’ non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as ‘market value on the assumption that property is sold as part of the continuing enterprise in occupation’.”

³³ See [FReM 14/15](#) paragraph 7.1.3

³⁴ See [FReM](#) page 37 re IFRS 13 Interpretation

³⁵ See [FReM 14/15](#) page 41 IAS 19 Employee Benefits interpretations

Estates Strategy	<ul style="list-style-type: none"> • Explanation of Estates Strategy in the OFR (Management Commentary)³⁶ • This may require open market values for assets
Remuneration Report	<ul style="list-style-type: none"> • The FReM 14/15 requires³⁷ a Remuneration Report to be presented • The Scottish Public Finance Manual (Annual Accounts section) specifies that individuals should be requested to provide consent for disclosures. Where not provided this should be stated in the accounts. • Practitioners are advised to ensure that all affected individuals are informed of the disclosure requirements as soon as possible. • The availability of the required information should be ascertained.
Government Funded Assets: Disclosure	<ul style="list-style-type: none"> • Assets provided by government funding are to be disclosed³⁸ This may involve some restatement to meet the requirements of this disclosure. • Applies to assets funded by government grant, lottery funding or government donation

Public Service Reform (Scotland) Act 2010 / Publication of Expenditure

103. The [Public Service Reform \(Scotland\) Act 2010](#)³⁹ requires the Scottish Government to publish information on the exercise of public functions. The legislation applies to the Scottish Funding Council⁴⁰. The Financial Memorandum between the SFC and colleges requires colleges to comply with the Act.
104. The table below indicates the main areas where information may be required:

³⁶ See [FReM](#) page 46 para 7.1.6 “discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy”

³⁷ See FReM 14/15 Section 5.2, particularly 5.2.21 <https://www.gov.uk/government/publications/government-financial-reporting-manual>

³⁸ See FReM 14/15 <https://www.gov.uk/government/publications/government-financial-reporting-manual> para 7.1.7 “As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed”

³⁹ See Part 3 of the act regarding information to be published

⁴⁰ See Schedule 8 of the act: ‘Listed Public Bodies’

Annual Statement of Spend – Specific Accounts	<ul style="list-style-type: none"> • Annual statement of spend regarding the following is required: <ul style="list-style-type: none"> ○ Public relations ○ Overseas travel ○ Hospitality and entertainment ○ External consultancy
Annual Statement of Spend > £25K	<ul style="list-style-type: none"> • Annual statement of all payments > £25K detailing: <ul style="list-style-type: none"> ○ Amount ○ Date ○ Payee ○ Subject matter
Annual Statement: Employee remuneration > £150K	<ul style="list-style-type: none"> • Annual statement of individuals receiving remuneration at or above £150K in the financial year
Annual Statement on Exercise of Functions	<ul style="list-style-type: none"> • Publication should explain action taken to: <ul style="list-style-type: none"> ○ promote sustainable growth ○ improve efficiency, effectiveness and economy

Whole of Government Accounts

105. The UK Government publishes [Whole of Government Accounts](#) (WGA) based on the IFRS based financial statements for public sector bodies. The process is co-ordinated by HM Treasury.
106. Public sector bodies complete spreadsheet returns based on their financial statements. The returns will normally require large transactions and balances with other public sector bodies to be identified. Where prepared the group accounts will be utilised.
107. Details of material transactions and balances with other public sector bodies are requested in order to allow these to be eliminated on consolidation.
108. For Scottish FE Institutions the following should be noted:
 - WGA returns will be required for 2015/16. Comparatives will be required (but not for counter-party information)
 - Scottish Government has agreed that colleges can complete the WGA return based on the 31 July draft audited annual accounts Returns are to be sent to the SFC by the end of September.
 - Specific audit of each FE institution's return is not anticipated. Currently there is no requirement for specific audit unless any one of gross assets; gross liabilities (excluding pensions); gross income; or gross expenditure exceeds £300m

- Only transaction streams and/ or balances with other public bodies of over £1m need to be identified
- Balances and transactions over £5m need to be agreed with the counter-party public sector body before return submission

109. In summary the key points for practitioners are:

Whole of Government Accounts (WGA)	<p>Most information should be readily available from the financial statements process</p> <p>Identification of material counter-party balances and transactions will be an additional task</p> <p>Advisable to incorporate preparation into financial closedown process</p>
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CHAPTER 4–SCOTTISH FUNDING COUNCIL REQUIREMENTS

CHAPTER SUMMARY

Resource Budgeting Reporting

- Budget development will take place within the public sector framework and timetable, including scrutiny by the Scottish Parliament
- In effect there is no approval to spend taxpayer funds unless the budget is approved by the Scottish Parliament
- Budgets are set based on net expenditure funded by the taxpayer. Other income generated by FE institutions does not require spending authority, as long as it equals or exceeds the related expenditure.

Resource Budget Return and Capital Resource Return

- The SFC is required to report summarised budget information to the Scottish Government.
- The Resource Budget, SFC Funding Breakdown and Capital Resource pro-formas are designed to assist in this process
- Only qualifying capital expenditure can be funded from capital resource.
- FE institutions should ensure that they can meet the on-going revenue consequences of capital expenditure.

Expenditure to Resource Reconciliation

- A reconciliation, based on the Income and Expenditure Account, should be undertaken by colleges to ensure that specific items are charged to the appropriate budget control totals:
 - RDEL (cash)
 - RDEL (non-cash)
 - RAME
 - Outside Scope

Cash Flow Reporting

- Indicative cash payment figures will be provided to each FE institution for an Academic Year, with the last 4 months subject to confirmation dependent on the following financial year's budget.
- Payments will be made in accordance with the timetable issued by the SFC. Emergency payments can be made to FE institutions.
- Cash flow returns required are:

- Annual Cash Flow Pro-Forma for forward planning
- Monthly Cash Flow Pro-forma for monitoring and forward planning of college cash needs.

Financial Sustainability Reporting [Financial Forecast Returns]

- The SFC will continue to review the financial sustainability of FE institution forward financial plans
- Forward Financial Returns [FFRs] will:
 - Normally be requested in February
 - relate to the current financial year outturn and the two following financial years

Resource Budget Reporting

110. The resource budgeting process is regarded as including:
- Development of the FE Sector budget for the financial year
 - Monitoring of the FE Sector budget for the financial year
 - Notification of in year requests for FE Sector RAME budget cover for the financial year
111. It is SFC's responsibility to allocate both cash and resource budgets to regions/ colleges in order to support the delivery of their Outcome Agreements, to distribute cash on the basis of need, monitor cash paid out by SFC against the overall Financial Year budget, monitor college sustainability and to provide information to Scottish Government and to Her Majesty's Treasury on the expected cash drawdown and on spend against resource budgets for the government financial year to 31 March.
112. Successfully achieving the above will require co-operation, co-ordination and an open two-way dialogue between all FE Sector stakeholders. The following processes are designed to enhance that dialogue.

FE Sector Budget Development

113. The Scottish Parliament is the ultimate authority in terms of granting approval for the Scottish FE Sector budget⁴¹. Typically the Scottish Government will submit a proposed budget, based on the consolidated sector position submitted by the SFC , to the Scottish Parliament⁴². The budget proposals will include both resource and capital

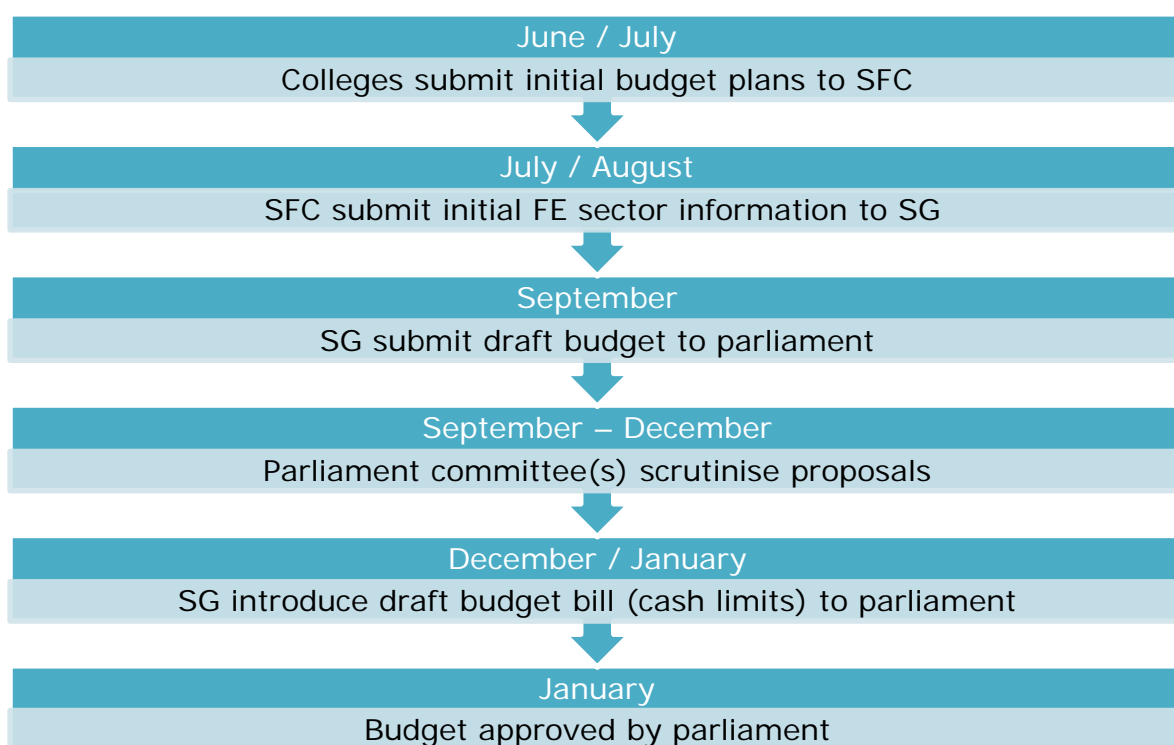
⁴¹ For example see the passage of the Budget (Scotland) (No 3) Bill for the 2014/15 budget.

<http://www.scottish.parliament.uk/parliamentarybusiness/Bills/71904.aspx>

⁴² A published proposed budget will normally be available on the Scottish Government website. For example the draft 2014/15 budget is available at: <http://scotland.gov.uk/Resource/0043/00433802.pdf> . For FE Sector spending plans see Chapter 5 Education & Lifelong Learning, particularly table 5.06.

budgets. The draft budget will normally include indicative future year spending plans. The number of years covered may depend on the status of the Spending Review cycle and the term of the existing parliament.

114. The FE Sector proposals will be considered by the relevant parliamentary committee. Presently this is the [Education and Culture Committee](#). The Committee will request evidence, both written submissions and oral evidence, from a variety of stakeholders. For example see the [Committee scrutiny of the 2014/15 draft budget](#).
115. **There is effectively no approval for the Scottish Government to spend unless or until the budget is formally approved by the Scottish Parliament.**
116. The process for the FE Sector budget development can be summarised as follows:



117. Although shown as a 'linear flow', two-way dialogue can be anticipated to occur as the budget is developed.

Cash RDEL Budgets

118. Cash RDEL budget cover for colleges comprises two items:
 - SFC funding – the SFC funds an FE institution receives for a given year is fixed in cash and resource terms, unless the Scottish Government allocates more funds and resources to colleges in year. In this respect an FE institution's authority to spend derived from SFC funding is fixed. This includes student support funds, but excludes Educational maintenance allowance payments to students.

- Other income – Other income generated by colleges does not require spending authority in so far as the income is available for the expenditure to be matched to.

119. The cash RDEL outturn figure is the college net resource outturn position. Colleges must not exceed their budgets.

Resource Returns

120. The SFC will require a resource budget analysis return following the publication of the Budget Bill in mid-January.

121. FE institutions will be requested to provide a forecast return for the year and a quarterly actual and reforecast return at Q1, Q2, Q3 and monthly for Q4 a final outturn report is required by end September 2015. The returns should follow the guidance for return completion at [Appendix C](#). College Director of Finance or equivalent will require to sign and return to the SFC with the September resource return the college Resource Review Certificate to ensure that the most accurate resource budget outturn position for the financial year can be reported to Scottish Government. The Resource Review Certificate details the checks that are required to be undertaken to certify the accuracy of the September Resource return. The Resource Return and the Certificate do not require to be audited. The resource return dates are as follows:

Period	Return Due 2015
Quarter 1: April - June	Mid-July
Quarter 2: July - September	Mid-October
Quarter 3: October - December	Mid-January
Month 10: January	Mid-February
Month 11: February	Mid-March
Month 12: March	Mid-April
Final Outturn	Mid-Sept

122. Any material changes to the original profile should be highlighted.

Annual Resource Return and Capital Resource Return

123. The Annual Revenue Resource Return and Capital Resource Return will be used by the Scottish Funding Council (SFC) to monitor the sector's adherence to resource and capital budgets. Sector level information is sent to the Scottish Government and then onto HM Treasury for consolidation into its management information system (OSCAR). Any material changes to the original profile should be highlighted.

Annual Revenue Resource Budget Return

124. The pro-forma presents summarised budget information as required by the Scottish Government and SFC. The form is phased over 12 months. The headings are summarised but the bottom line in both cases should match that in the colleges' own

annual budget. Colleges with subsidiaries must report the group position in this return.

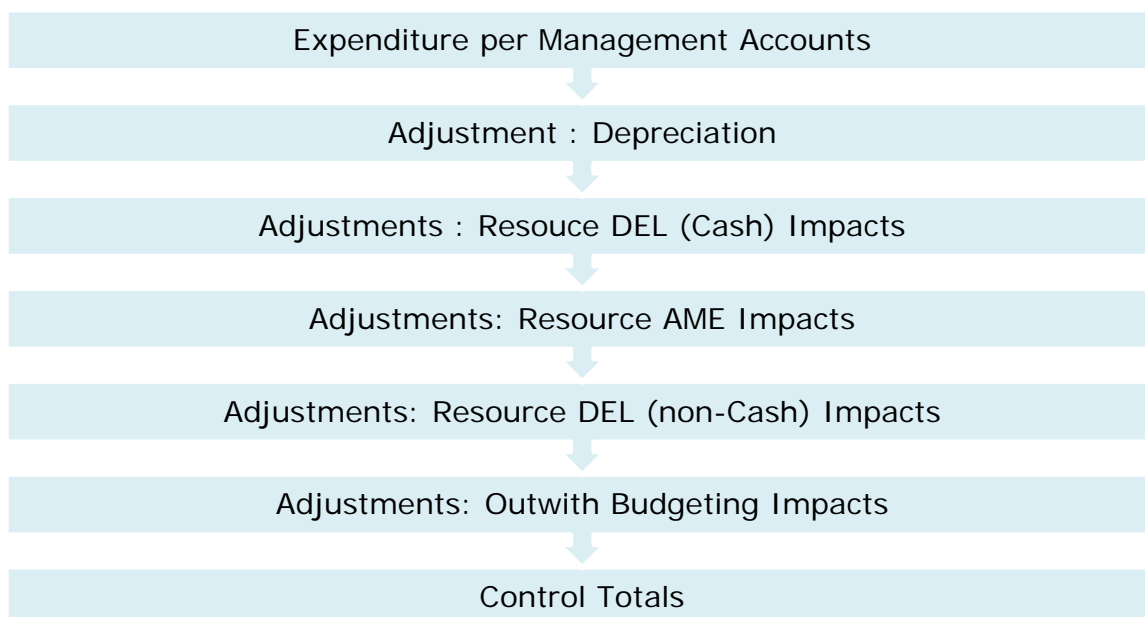
125. The Checklist [in Appendix C](#) details the items of Income and Expenditure that should be included in each line of the Annual Revenue Resource Budget Return and the Quarterly Revenue and Capital Resource Budget Return.

Annual and Quarterly Capital Resource Budget Pro-Forma

126. Capital expenditure as defined within the Consolidated Budgeting Guidance (CBG), is that which relates to the acquisition or construction of a capitalisable fixed asset. The definition of a capitalisable fixed asset is contained within the new SORP and IFS 102 and will also be governed by college's local capitalisation thresholds. SFC capital funding can only be spent on capitalisable items as defined in the aforementioned relevant accounting standards.
127. Sources of funding for capital expenditure include
- a. SFC capital grant
 - b. transfers to a College from an arms-length foundation
 - c. other external sources of funding (e.g. ERDF or funded through commercial income)
 - d. a switch between resource and capital DEL (provided agreed in advance by the SFC)
 - e. utilisation of disposal proceeds under the agreed scheme of delegation or where approved by SFC.
128. Total funding must equal total expenditure and college reserves cannot be used to fund this expenditure.
129. College capital expenditure needs to be fully funded and colleges must be able to meet the revenue consequences (depreciation and lifecycle costs) of capital expenditure from within overall budgets and resource limits.

Expenditure to Resource Reconciliation

130. To ensure appropriate control and confirmation of budgetary control totals colleges should complete an 'Expenditure to Resource Reconciliation'. This provides a clear link between the Income & Expenditure Accounts and the resource budget outturn totals.
131. The reconciliation can be represented as:



132. The following table provides an illustrative example. A brief explanation of the adjustments follows the table.

£000s	Expend	RDEL (Cash) Adjusts	RAME Adjusts	RDEL (non- Cash) Adjusts	Outwith Budgeting Adjusts
A Expenditure					
Per management accounts,	5,210				
Remove Depreciation – charge to RDEL (non-cash)	(150)			150	
Release deferred capital grant to RDEL (non-cash)				(150)	
Remove Impairments – charge impairments which fail to meet the RAME criteria to RDEL (non-cash) [i.e. excluding impairments chargeable to RAME]	(50)			50	
B Resource DEL Adjustments					
Charge transfer to ALF to RDEL cash		220			
Charge loss or credit (gain) on asset disposal to RDEL cash		(30)			
Charge spend on student support bursaries to RDEL cash		150			
Charge student support (discretionary fund) expenditure to RDEL cash		10			

£000s	Expend	RDEL (Cash) Adjusts	RAME Adjusts	RDEL (non- Cash) Adjusts	Outwith Budgeting Adjusts
C Resource AME Adjustments					
Charge impairments that meet criteria (i.e. are not RDEL non-cash) to RAME			10		
Charge pensions costs that are not equivalent to the employer contributions to the year (i.e. non-cash movements) to RAME			120		
Charge provisions created in the year to RAME			80		
Credit provisions released for the year to RAME			0		
Charge or (credit) increases (decreases) in the estimated provision to RAME (i.e. any revaluation of the provision estimate)			20		
D Outwith Budgeting					
Charge the Net Impact of Provisions created before 31/3/2014 to 'outwith budgeting' to avoid impact on RDEL (cash)	(80)				80
Outturn Totals:	4,930	350	230	50	80

<u>RDEL (cash)</u> <u>Over (Under) Spend Reconciliation (£000)</u>		
Budget Category Outturn Totals [Expend + RDEL (cash) Adjusts – RAME adjusts = 4,930+350-230]		5,050
Funding Sources		
SFC Funding	(3,660)	
SFC Student Support Funds (Agency)	(160)	
Other generated income(eg commercial income)	(1,800)	
Total Funding Sources to support RDEL (cash) Expenditure		(5,620)
Net RDEL (Cash& Near Cash) Over (Under) Spend		(570)

<u>Other Budget Control Totals</u> <u>(£000)</u>			
	Budget	Out-turn	Variance Over (Under)
RAME	215	230	15
RDEL (non-cash)	60	50	(10)

	Non SFC source Cash*	Income and Out- turn	Variance Over (Under)
Outwith Budgeting	100	80	(20)
*Note – there is no specific budget for 'outwith budgeting' items however the College should ensure that it has sufficient retained cash, or can generate (non-SFC source) cash, to make necessary payments.			

Income and Expenditure per Management Accounts

133. Income and Expenditure per Management Accounts will include normal operational expenditure, depreciation, exceptional and other expenditure items. Expenditure as recorded in the Management Accounts is expected to exclude:
- Transfers to Arm's-Length Foundations
 - Spend on student support that is treated as 'agency'
 - Released credits for deferred capital grants
 - Gains or losses on disposal of fixed assets
 - SFC Funding income
 - SFC funding for agency student support expenditure
 - Other generated income (e.g. commercial income)
134. Unusual items of expenditure or income should be discussed with the SFC.

Depreciation & Deferred Capital Grant Released

135. Depreciation is removed from the RDEL outturn total as this depreciation charge is covered by RDEL **non-cash** budget. Within RDEL (non-cash) the release of deferred capital grants nets down the amount of RDEL (non-cash) budget cover required.

Impairments Chargeable to RDEL (Non-Cash)

136. Impairment which is chargeable to RDEL-non-cash is removed from the RDEL outturn total as such charges are covered by RDEL **non-cash** budget, subject to the availability of the budget.

Transfer to and grants from Arms-Length Foundation

137. These transfers impact on a college's resource DEL budget and need to be included in RDEL (cash) expenditure. It is assumed that grants from Arms-Length Foundations will normally have terms and conditions, or restrictions, attached and that the normal treatment of grants and donations applies. This income will therefore be shown as 'other generated income', not netted off within expenditure. The expenditure related to the grant received will be shown as other expenditure in the college's Income and Expenditure account if the donation is for revenue purposes. If the donation is for capital there will be a surplus on the college's Income and Expenditure account to fund the proposed capital expenditure.

Gain / Loss on Disposal of Fixed Assets

138. The gain or loss on book value scores against RDEL (cash). A gain on sale is subtracted from RDEL, increasing the resource budget available but a loss on sale is added to an FE institution's RDEL outturn position, reducing the resource budget available, subject to the rules on such items in the [Consolidated Budgeting Guidance](#) [CBG 6.11, 7.2-7.3].

Impairments Chargeable to RAME

139. Impairments score against either against RDEL non-cash or RAME dependent upon the reason for the impairment (see paragraph 56 and 58 above). FE institutions should include charges for impairment in the appropriate resource column (RDEL non-cash or RAME) and inform the SFC as soon as they become aware of an impairment charge being likely to arise.

Student Support Funds

140. Some student support funds are treated by colleges as an agency arrangement. This differs from the way in which SFC and Government accounts for these funds which form part of resource budget and are not treated as agency for outturn budget totals. Colleges will need to adjust for these items in the return to get back to an overall resource budget outturn.
141. The net impact of student support transactions within a college's I&E remain the same. That is, if income and expenditure match the net impact is nil. Should a college overspend its bursary allocation then this must be met from other income.
142. The various student support funds are discussed in more detail below:

Bursaries	<p>FE institutions currently account for bursaries as an agency arrangement.</p> <p>The Scottish Government allocates bursaries to SFC as a resource DEL item.</p> <p>The Expenditure to Resource Reconciliation needs to address this mismatch of accounting policies to ensure that colleges capture the resource impact of all SFC funded student support expenditure irrespective of the accounting treatment used.</p>
Discretionary Funds	<p>If colleges account for these funds as an agency arrangement, they should be accounted for in line with bursaries.</p> <p>A similar adjustment to bursaries may therefore be required in the Expenditure to Resource Reconciliation.</p>

Educational Maintenance Allowances (EMAs)

Colleges recognise EMAs on an agency basis.

This aligns with how the SFC treats these funds. SFC accounts for these funds as an agency arrangement in that the Scottish Government has already accounted for them as resource DEL, and neither the SFC nor FE institutions has control over their allocation.

Therefore no adjustment should be necessary in respect of EMAs.

Payments to cover administration should still be credited the college Income and Expenditure account

Pensions

143. Non-cash movements on pensions that are captured within expenditure as a result of an actuarial variation are RAME impacts and should be classified as such. These items include past service costs and the interest on scheme assets. These should be categorised as RAME whether it is a gain or loss that results from the valuation. Appendix C Annex 1 provides an example for pension accounting.

Provisions

144. The creation, release or amendment of a provision recognised in expenditure for the year is classified as RAME. This is because they do not involve a transfer of cash or near cash to settle the provision. This includes the unwinding of any present value calculation.
145. A release that is settlement in cash (or where payment becomes certain enough for a creditor to be recognised) is classified as resource DEL.
146. **FE institutions should ensure that provisions created are monitored so that forward RDEL budgets appropriately address any eventual settlement.**
147. **Additionally changes in the estimated provision required should be provided to the SFC in case a request to vary the RAME budget is required.**

Outwith Budgeting:

Repayment of Existing Provisions or Borrowing [Including LENNARTZ]

148. Repayment of such items existing as at 31/3/14 (eg the principal element of borrowings from lenders including the SFCA, provisions and LENNARTZ agreements) are outside the scope of the budgetary framework. They would normally be balance sheet movements, with no entry required to expenditure.
149. Interest on such borrowings, as well as other service charges, are chargeable to RDEL as incurred.

Questions and Uncertainties

150. **If there are any questions or uncertainties regarding the treatment of an item in the Expenditure to Resource Reconciliation please contact the SFC.**

Cash Flow Reporting

151. In terms of cash funding the SFC is responsible for:
- Distributing the full grant in aid to FE institutions within the financial year
 - Ensuring that payments are not made in advance of need
152. The SFC intends to continue providing indicative funding allocations to FE institutions for the Academic Year. The requirements of the public sector budgeting environment mean that the figures for the final four months of the Academic Year (April to July) are *indicative* only. Indicative figures will be confirmed or, exceptionally, adjusted when the SFC budget for the relevant financial year is confirmed.
153. Payments to colleges will generally be made mid-month. Significant variances from previous or expected profiles will require the SFC and the FE institution to liaise on the implications. If necessary the SFC has a facility for emergency payments to be made outwith the monthly cycle. **Contact the SFC if this is required.**
154. Payments will be made based on need. Colleges will be requested to submit information, as indicated in the following table, over the extranet:

Annual Cash Flow Pro-forma

- Issued to FE institutions a week after the Indicative Funding Allocations. Issue normally expected at end of January.
- Academic Year and Financial Year budget allocations are shown
- FE institutions will have one month to complete
- Role of the annual pro-forma:
 - To support consolidation of FE institution plans allowing the SFC to manage over/under spends at a sector level
 - To inform the SFC's grant in aid report to the Scottish Government
 - To ensure that payments are not made in advance of need
 - To inform assessment of financial sustainability
- Completion:
 - SFC Grant in aid: Completed by the SFC. Only announced budgets will be included. The budget totals must not be exceeded in the profile section.
 - Projected monthly SFC grant request: Completed by the FE institution, setting out anticipated monthly requirement.
Notes:
 - Cash balances to be utilised before seeking payment from the SFC
 - Project funding should only be requested in support of relevant spend on that project
 - Some funding streams (e.g. capital, EMA) need to be shown separately
 - ESF funding profiles will be pre-populated. Any actual variation should be managed within overall funding arrangements.
 - The profiles entered will automatically feed into the monthly cash flow forecast
 - Cash-flow forecast: Completed by the FE institution. Grant income will be populated by data contained in the annual cash flow pro forma. Completion of monthly cash payments required:
 - Key items required: opening bank balance; income from foundation; other capital/non-capital income; salaries; Student Support payments; donations to foundation; loan/lennartz repayments; other operating costs; other ring-fenced grant payments (i.e. to match to ring-fenced funding streams)

Monthly Cash Flow Pro-Forma

- Issued to the end of the month preceding payment .
- One week for submission of return
- Role of the monthly pro-forma:
 - To ensure payments are not made in advance of need
 - To enable SFC to drawdown Scottish Government cash funding
 - To identify the following month's cash requirement & to forecast for the remainder of the year
 - Identify FE institution's projected and actual cash flow
 - To support SFC sector level management of under/over spends
 - To support assessment of financial sustainability
- Completion:
 - Actual & projected monthly SFC grant request: are pre populated with data from the annual cash flow return pro forma.
 - Actual payments & requested SFC grant: Completed by the FE institution:
 - Cash balances to be used before seeking payment from the SFC
 - Project funding should only be requested in support of relevant spend on that project
 - Some funding streams (e.g. capital, EMA) are to be disclosed separately
 - An agreed ESF funding profiles will be pre-populated. Any actual variation should be managed within overall funding arrangements.
 - Cash-flow forecast: Completed by the FE institution. Grant income will be populated by the data above. Completion of monthly cash forecasts required:
 - Key items required: opening bank balance; income from foundation; other capital/non-capital income; salaries; Student Support payments; donations to foundation; loan/lennartz repayments; other operating costs; other ring-fenced grant payments (i.e. to match to ring-fenced funding streams)

155. Payments will be made based on need. Colleges are requested to return a monthly pro-forma stating the immediate cash requirement for the month and projected future cash requirements for the remainder of the year.

Financial Sustainability Reporting [Financial Forecast Returns FFR]

- 156. The objective of the Financial Forecast Returns [FFRs] is to provide the SFC with an overview and forward look of FE institutions' financial sustainability.
- 157. The FFR will cover the current year outturn and the following two years.
- 158. The FFR should normally provide the basis for the cash flow and resource budget returns and will normally be submitted with the other annual submissions at the end of February.
- 159. The proposed submission deadlines will be advised annually by the SFC.

Accounts Direction

- 160. The Scottish Funding Council issues an Accounts Direction which specifies the requirements that apply to the preparation of the financial statements. This will normally include:
 - a. The accounting framework that will apply for the financial statements (e.g. the FE/HE SORP and FReM)
 - b. The requirement for a 'true and fair view'
 - c. A requirement for a copy of the direction to be published in the financial statements

Financial Memorandum

- 161. The Financial Memorandum sets the basis of the formal relationship between the SFC and FE Institutions. The existing Financial Memorandum was issued in December 2015.
- 162. The table below summarises the key content of the [SFC Financial Memorandum \(2014\)](#).

Item	Summary
What FE Institutions can expect of the SFC	<ul style="list-style-type: none"> • Highest public sector standards • Openness and transparency • Complaints and appeals procedures • Regular and frequent dialogue • Maximise discretion for FE Institutions in the utilisation of funding • Utilisation of FE Institution data • Adherence, and discussion of proposed changes to, agreed funding arrangements • Prior arrangement of reviews and evidence requirements to support the Accountable Officer's responsibilities • Resolution of issues through: <ul style="list-style-type: none"> ○ Firstly the Chief Executive of the FE Institution ○ Secondly with FE Institution governing board ○ Thirdly amendment to funding arrangements

Item	Summary
What the SFC can expect of FE Institutions	<ul style="list-style-type: none"> • Safeguarding of public funds and the achievement of public objectives by the good practice governance, management and conduct of the FE Institution • Governance and control arrangements as required by relevant regulatory frameworks • Appointment of a jointly accountable Chief Executive Officer reporting to the FE Institution board and the Accountable Officer. • Within relevant frameworks: <ul style="list-style-type: none"> ○ Effective planning and delivery of institution activities in accordance with its mission and its Outcome Agreements with the SFC. ○ Secure sufficient quality data to assess the achievement of goals ○ Adjust strategies to deliver goals ○ Use public funds legally and for permitted purposes ○ Achieve Best Value ○ Take appropriate account of Scottish Ministers' priorities ○ Actively involve students and stakeholders in continuous improvement of services ○ Ensure complaints process maintained ○ Openness, transparency and accountability ○ Sustainable resource planning and management ○ Adherence to mandatory requirements and good practice for resource management (e.g. staff, assets, finances, risk etc) • Chief Executive Officer of the FE Institution Board must inform the Accountable Officer immediately of any existing or likely inability to maintain its service delivery capacity

163. [Appendix A](#) "Delegated financial limits and annual reporting requirements sets out the reporting requirements place on institutions. This should be read in conjunction with the SPFM. Please refer to the relevant section of the SPFM for the detailed requirements.

164. In summary the main areas addressed are:

Duties to provide information under the Public Services Reform (Scotland) Act 2010	Borrowing	Cash Management & Banking
Major Investment projects	Delegated Authorities	Gifts Made, Special Payments & Losses
Impairments, Provisions & Write Offs	Income Generation	Insurance

Investments	Lending & Guarantees	Pay & Conditions of Service
Procurement & Payment	Delegated Financial Limits	Donation of Surplus to Arm's- Length Foundation (ALF)

CHAPTER 5 – ARM'S LENGTH FOUNDATIONS

CHAPTER SUMMARY

- FE Institutions are permitted to establish Arms-Length Foundations in order to:
 - Maintain existing FE incentives for commercial activities by permitting generated surpluses to be used for FE institution objectives in the future
- An umbrella ALF, has been established with sub-accounts for participating FE institutions, for those institutions which have not establish a dedicated ALF
- It is important the any ALF is properly constituted , has appropriate objectives and is clearly independent of the FE institution
- Any surplus can be transferred annually to an ALF. It is not anticipated that surpluses will need to be disaggregated between commercial and taxpayer funding activities subject to availability of cash and budget cover.
- Commercial activity fees and charges should at least cover commercial activity costs in line with the requirements on costing and pricing contained in the SPFM Skills Development Scotland funding is to be treated as commercial income.
- SFC capital grant will be ring-fenced and is not open to transfer to an ALF.
- Student support funds are ring fenced and any unspent funds cannot be transferred to an ALF.

Objectives

165. To ensure that FE institutions continue to undertake the same activities with appropriate incentives FE institutions are permitted to establish Arms-Length Foundations (ALFs). These will be charitable bodies, registered with [OSCR](#), in the form of either a Company Limited by Guarantee or a Scottish Charitable Incorporated Organisation⁴³ or a charitable trust.
166. The main objectives of establishing ALFs are to:

⁴³ See Reclassification of Incorporated Colleges, Communication No 7, para 18

- Allow FE institutions with cash-backed reserves prior to 31 March 2014 to ensure that these reserves can still be used to support investment in education in the future . If such reserves remain with the FE institution additional budget cover would be required to allow the reserves to be applied. Transfer of such reserves to an appropriate ALF will enable the reserves to be used in future.
- Provide FE institutions with a continuing incentive to derive surpluses from commercial activities. The ability to transfer cash-backed reserves generated from such activities to an ALF, for later application to support FE sector service objectives, retains this incentive.

167. An 'umbrella' foundation has been established for the Scottish FE Sector. FE institutions which did not establish their own related ALF could utilise the umbrella ALF for the objectives outlined above. The umbrella ALF will maintain restricted 'sub-funds' relevant to each College for application in line with the remit of each sub-fund⁴⁴.

Independence of the ALF

168. In establishing an ALF it is essential that the ALF is clearly independent of the FE institution. Failure to do so may result in the foundation being classified as part of the public sector. For example treatment as a subsidiary or an associate would be expected to result in inclusion within the public sector. This would fail to achieve the objectives of establishing an ALF.
169. It is also important that the ALF's are properly constituted to ensure that the funds transferred from colleges are safeguarded and that colleges continue to have access to these funds.

Transfer of Surpluses to ALFs

170. Any surplus can be transferred to an arms-length foundation. Those not transferred will not be able to be used the following year as there will be no budget cover to enable the expenditure to take place. It is anticipated that such transfers will require adjustments to colleges' income and expenditure which in turn should be factored into colleges' cash flow projections.
171. The SFC currently expects that all surpluses, regardless of the source of the surplus, will be able to be transferred to the arms-length foundation with the proviso that the funds held within the foundation will eventually be used in line with the college's strategic plan. This should not require the disaggregation of surpluses between commercially generated and publically generated surpluses.
172. In charging for commercial services FE institutions should refer to the [Scottish Public Finance Manual Fees & Charges Section](#) which states that at least the full cost of services must be recovered. It is currently expected that Skills Development Scotland funding will be classified as a commercial activity.

⁴⁴ See Reclassification of Incorporated Colleges, Communication No 7 for the initial draft constitution

173. The SFC capital grant is ring fenced and FE institutions will not be able to transfer any unused capital grant to the foundation as it would no longer for many part of the income and expenditure account surplus⁴⁵
174. Student support funds are ring fenced and colleges cannot transfer any unused Student support funds to the foundation.

CHAPTER 6 – REGIONAL ACCOUNTS

CHAPTER SUMMARY

Applicability to Regional Boards

- Compliance with FE HE SORP and FReM requirements is expected
- The FE HE SORP should be adopted while applying the principles and disclosure requirements of the FReM
- In the event of uncertainty contact the SFC

Application of 'Group Accounting'

- Regional Boards will be expected to ensure that the accounting requirements are met
- Regional Boards should ensure appropriate arrangements are agreed with all stakeholders

Transition Issues

- Regional Boards should consider the implications of reclassification for group arrangements, including governance and information provision

Applicability of Regional Group Accounting Requirements

175. Regional Boards with responsibility for locally assigned colleges are expected to comply with the relevant accounting requirements of the FReM and the FE HE SORP. See the section on Financial Statements: FE HE SORP/ FReM Compliance (paragraph **Error! Reference source not found.** onwards) in this manual.
176. Regional Boards should review the group accounting requirements of the FReM (see Chapter 4) and the FE HE SORP. The

⁴⁵ See Reclassification of Incorporated Colleges, Communication No 8, paras 25-29

177. For charitable ALBs the SORP requirements will take precedence over the FReM requirements. In the event of any uncertainty or any difference between the accounting framework requirements the Regional Board should contact the SFC.
178. The FReM states:
- a. paragraph 5.2.1 on page 16: "Arms length bodies shall prepare consolidated financial statements in accordance with the requirements of Group Accounting Standards, without adaptation and interpretation."
 - b. Page 39: "ALBs should apply IFRS 10 without adaptation." and "ALBs should apply IFRS 11 without adaptation."
179. It is anticipated that assigned colleges will meet the definition for classification as subsidiaries.

Application of Regional Group Accounting Requirements

180. The normal accounting requirements, particularly the FReM requirements, are anticipated to apply to the consolidation of group entities.
181. Regional Boards can therefore be expected to ensure:
- a. appropriate application of group boundary and classification criteria
 - b. alignment of group entity accounting policies
 - c. suitable alignment of financial periods
 - d. adjustments regarding transactions and balances internal to the group
 - e. establishing clear agreements with group entities regarding the information required and submission timetables
 - f. evidence retention and availability for external audit

Appendices

Extract from Part 3 Financial Memorandum

Scottish Public Finance Manual

5. The institution must follow the requirements of the Scottish Public Finance Manual, except where any special actions or derogations have been agreed with the Scottish Ministers.
6. The derogations and actions in the following paragraphs have been agreed with the Scottish Ministers and must be read in conjunction with the SPFM. Where reference is made to the SPFM, please refer to the relevant section for the detailed requirements.
7. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government, the institution must, in the first instance, contact SFC.

Borrowing

8. All borrowing by incorporated colleges will require the approval of the Scottish Ministers. Requests to borrow must be submitted to the SFC in the first instance.
9. Under the terms of Schedule 2B to the Further and Higher Education (Scotland) Act 2005, inserted by the Post-16 Education (Scotland) Act 2013, Regional Boards may not borrow money.

Cash management and banking

10. Grant payment will not be made in advance of need, as determined by the level of unrestricted cash reserves and planned expenditure. Unrestricted cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the institution and the level of funds required to meet any relevant liabilities at the year-end. Grant-in-aid not drawn down by the end of the financial year shall lapse. Grant-in-aid shall not be paid into any restricted reserve held by the institution. Transfers to arms-length-foundations are permitted.

11. Banking arrangements should ensure they offer best value and comply with the Banking section of the SPFM. The Scottish Ministers have approved a derogation which delays the move to the Government Banking Service (GBS) to 2016-17 at the earliest.

12. The institution may extend existing banking arrangements provided they are not extended beyond Financial Year 2016-17. Any extension beyond Financial

Year 2016-17 requires the agreement of the Scottish Ministers.

13. The institution can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing.

Contingent commitments

14. The institution must seek SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.

15. The institution should also provide assurance that, in the event of the contingent liability arising, it can be met from within the institution's own resource, or that appropriate insurance cover has been arranged.

16. However, SFC's written consent is not required for such arrangements if the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business.

Delegated financial limits and annual reporting requirements

17. The institution's specific delegated financial limits are set out in [Appendix A](#). The institution must obtain SFC's prior written approval before entering into any undertaking to incur any expenditure that falls outwith these delegations.

18. Prior SFC approval must always be obtained before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications.

19. What might be regarded as novel or contentious inevitably involves a degree of judgement. Novel would include proposed expenditure or financial arrangements of a sort not undertaken previously or which is not standard practice. Contentious would include proposed expenditure or financial arrangements where there was any doubt as to its regularity – for example, its compliance with relevant legislation or guidance – or its

propriety – for example, compliance with the standards expected of publicly funded bodies or their officials. Proposed expenditure or financial arrangements that might be considered to be sensitive politically would also be regarded as contentious.

20. In addition, any frauds that are detected must be reported to SFC as and when they occur.

21. The institution must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and this FM.

22. [Appendix A](#) also sets out the levels for certain categories of expenditure above which the institution should report annually to SFC. The report should describe the number of instances and total cost, by category of expenditure.

Donation of surplus funds to arms-length foundations

23. The institution may donate any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. The donation must take place in the financial year in which it arises, and is subject to sufficient cash and resource cover being available.

Duties to provide information on certain expenditure as required by The Public Services Reform (Scotland) Act 2010

24. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement of any expenditure that it has incurred during that financial year on or in connection with the matters described below.

- Public relations,
- Overseas travel,
- Hospitality and entertainment,
- External consultancy.

25. As soon as is reasonably practicable after the end of each financial year, the institution must publish a statement specifying the amount, date, payee and subject-matter of any payment, relating to any of the matters listed above, made during that financial year which has a value in excess of £25,000.

Early departures of staff

26. The institution must follow the requirements of the SPFM in determining settlement agreements, severance, early retirement and redundancy arrangements and payments. In addition, the institution must have regard to the principles of good practice in managing early departures of staff contained in Audit Scotland's May 2013 report: Managing early departures from the Scottish public sector.

27. In line with the requirements of the SPFM, the institution's severance scheme must be approved by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC.

28. However, special severance payments in excess of £1,000 must be approved by SFC, except where provision for such payments has been included in a severance scheme approved by SFC. (See [Appendix A](#))

External business and management consultancy contracts

29. Any external consultancy contracts with a value of more than £100,000 must be approved in advance by the SFC.

Impairments, provisions and write-offs

30. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FReM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed with the SFC.

31. Write-off of bad debt and/or losses score against resource Departmental Expenditure Limits (DEL).

Income generation

32. The institution will be able to retain all commercial income, gifts, bequests or donations received. These funds will be in addition to any grant or funding the institution receives from the SFC.

Insurance

33. The Scottish Ministers have agreed a derogation whereby institutions can extend their current commercial insurance arrangements for three years to 31 July 2018.

Investments

34. The institution must not make any investments of a speculative nature without the prior written approval of SFC.

Procurement and payment

35. The institution's procurement processes must reflect the relevant guidance contained in the Advanced Procurement for Universities and Colleges, and relevant policy and advice issued by the Scottish Procurement Directorate. Procurement must be undertaken by appropriately

trained and authorised staff and treated as a key component of achieving the institution's objectives consistent with the principles of Best Value, the highest professional standards and any legal requirement.

36. Any proposal to award a contract without competition (non-competitive action) must be approved in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. (See Appendix A)

Delegated financial limits and Annual Reporting Requirements for Regional Colleges and Regional Boards

Delegated financial limits

External Business and management consultancies £100,000

Special severance payments £1,000

Operating leases-non property £250,000

Procurement non-competitive action £25,000

Annual reporting requirements

Extra contractual payments £5,000

Compensation payments £5,000

Ex-gratia payments £1,000

Claims waived or abandoned £3,000

Write-off of bad debt £3,000

Losses £3,000

Overseas student irrecoverable loss £6,000

Fraud loss £5,000

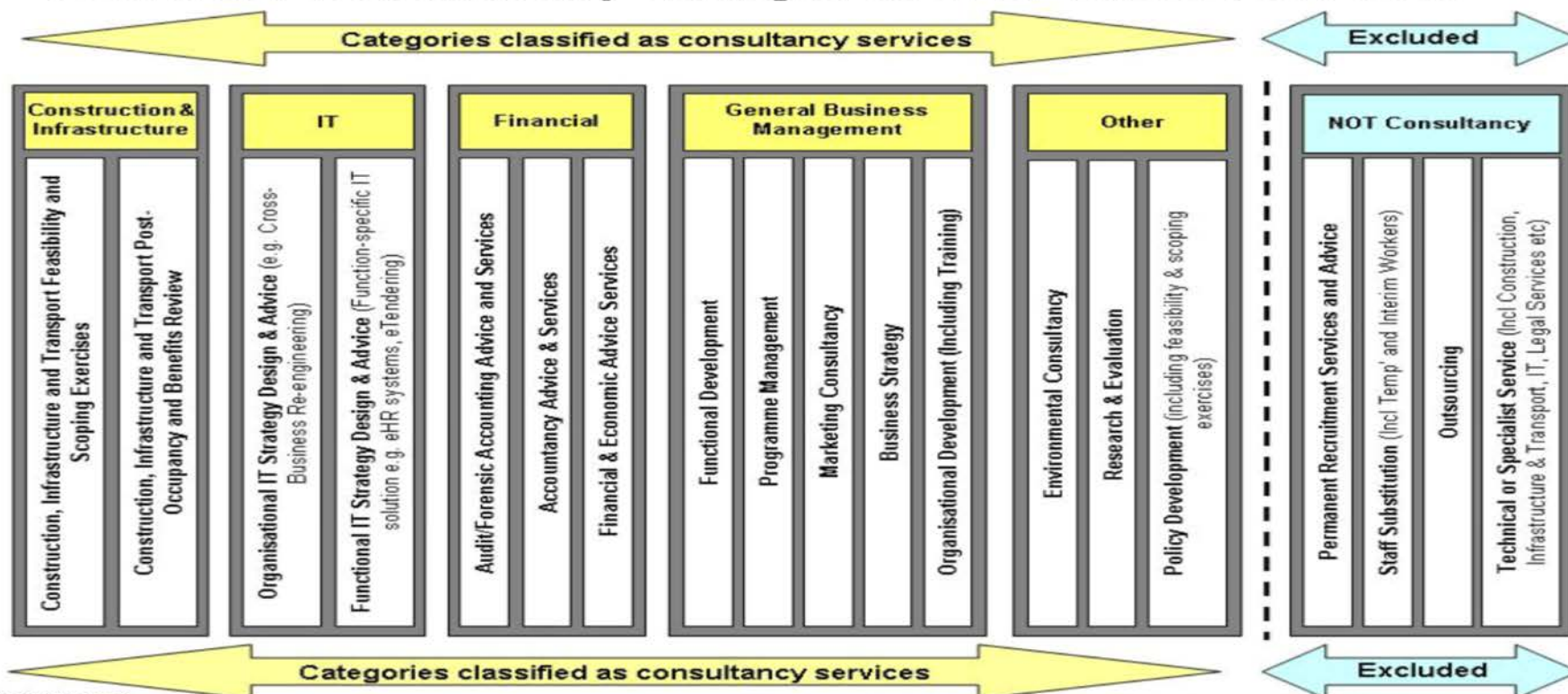
Delegated limits for incorporated colleges: definition of terms

Consultancy

The Three-part Test – in conjunction with the chart below from the SPFM – determines whether a service is defined as consultancy. The three tests are:

- There must be an ongoing exchange of intellectual or professional information concerning the planning and or delivery of the project or objectives between the institution and the supplier; and
- The commission or contract ends at the completion of an agreed output or outputs rather than the end of a set period of time (subject to the required project timescales); and
- The day-to-day task management remains with the supplier. However, a regular reporting arrangement should be agreed with the institution contact to ensure that progress is recorded, that issues and risks are identified early, and that resolutions are agreed and delivered, where necessary.

Annex A: Consultancy Categories and Three Part Test



Notes to Annex A

It is Annex A in conjunction with all of the Three Part Test that determines whether a service is defined as consultancy. The three tests are:

1. There must be an ongoing exchange of intellectual or professional information concerning the planning and/or delivery of the project or objectives between the Scottish Government and the supplier; and

2. The commission/contract ends at the completion of an agreed output(s) rather than the end of a set period of time (subject to the required project timescales); and

3. The day-to-day task management remains with the supplier. However, a regular reporting arrangement should be agreed with the Scottish Government contact to ensure that progress is recorded, that issues/risks are identified early, and that resolutions are agreed and delivered, where necessary.

It is the maximum value of expenditure over the entire period of the consultancy requirement or contract that will be paid to a supplier to ensure the appropriate level of approval is sought.

If there is a variation to the contract which will cause costs to exceed the level initially approved, further approval will need to be sought at the appropriate level before agreeing that the additional work can go ahead.

Section 31 (1) and (2) of the Public Services Reform (Scotland) (PSR) Act 2010 require public bodies to publish a statement of any external consultancy expenditure they have incurred during that financial year as soon as is reasonably practicable after the end of each financial year.

Novel or Contentious Expenditure

Whether or not a financial transaction might be regarded as novel or contentious inevitably involves a degree of judgement. "Novel" would include proposed expenditure or financial arrangements of a sort not previously undertaken or entered into by the body in question or that could not be considered, reasonably, to be standard practice. "Contentious" would include proposed expenditure or financial arrangements where there was doubt as to regularity (i.e. compliance with relevant legislation and guidance) or propriety (i.e. compliance with the standards expected of public bodies or officials). Proposed expenditure or financial arrangements that might be considered to be politically sensitive would also be regarded as contentious. If in doubt advice should be sought from the SFC.

While the prior written approval of the SFC must be obtained for any novel or contentious (or repercussive) financial transactions undertaken by colleges, responsibility for such transactions remains with the relevant Chief Executive/Principal. The Chief Executive/Principal should therefore be made aware of all such transactions. (in lieu of accountable officer)

Repercussive: an unintended consequence of an action which is usually unwelcome.

Losses

Fruitless Payments and Constructive losses

A payment which cannot be avoided because the recipient is entitled to it even though nothing of use will be received in return should be classified either as a fruitless payment or as a constructive loss. The latter category should be used where the loss was "constructively incurred".

A fruitless payment is a payment for which liability ought not to have been incurred, or where the demand for the goods and services in question could have been cancelled in time to avoid liability; for example:

- Forfeitures under contracts as a result of some error or negligence by the payee;
- Payment for travel tickets or hotel accommodation wrongly booked; or for goods wrongly ordered or accepted;
- The cost of rectifying design faults caused by to lack of diligence or defective professional practices; and
- Extra costs arising from failure to allow for foreseeable changes in circumstances.

There are many degrees of error which might be involved in making a fruitless payment; the criterion is not whether the error is considered serious enough to warrant disciplinary action but simply whether the payee was at fault in incurring or not avoiding the liability to make the payment. Because fruitless payments will be legally due to the recipient they are not regarded as special payments. As due benefit will not have been received in return, however, they should be regarded as losses.

A constructive loss is similar to a fruitless payment, but one where procurement action itself caused the loss. For example, stores or services might be correctly ordered, delivered or provided, then paid for as being in conformity with the order; but later, perhaps owing to a change of policy, they might prove not to be needed or to be less useful than when the order was placed. A constructive loss need not be noted in the losses statement in the resource accounts, but should be recorded under "other notes" if significant.

Waiver and Abandonment of Claims

Waiver or abandonment of a claim occurs if it is decided not to present or to pursue a claim which could be or has been properly made. Examples are:

- A decision to reduce the rate of interest on a loan, and therefore to waive the right to receive the amount of the reduction;
- Claims actually made and then reduced in negotiations or for policy reasons;
- Claims intended to be made, but which could not be enforced, or were never presented;
- Failure to make claims or to pursue them to finality, e.g. owing to procedural delays allowing the Limitations Acts to become applicable;
- Claims arising from actual or believed contractual or other legal obligations which are not met (whether or not pursued) e.g. under default or liquidated damages clauses of contracts;
- The amounts by which claims are reduced by compositions in insolvency cases, or in out-of-court settlements, other than reductions arising from corrections of facts; and
- Claims dropped on legal advice, or because the amounts of liabilities could not be determined.

If a claim has been presented in error or otherwise proves to be ill-founded, the claim should be withdrawn (whether or not it has actually been presented) and need not be noted. A claim should not, however, be regarded as withdrawn where there is doubt as to whether it would succeed if pursued in a court of law, or if the liability of the debtor has not or cannot be accurately assessed. A claim for refund of an overpayment which fails or is waived should be regarded as a cash loss.

Special Payments

An extra-contractual payment is one which, although not legally due under the original contract or subsequent amendments, appears to place an obligation on a public sector organisation which the courts might uphold. Such obligations will usually arise from administrative action or inaction in relation to the contract. A payment is regarded as extra-contractual even where there is doubt whether or not the organisation is liable to make it; for example, where the contract provided for arbitration but a settlement is reached without recourse to arbitration. A payment made as a result of an arbitration award is contractual.

A compensation payment is one made in respect of unfair dismissal or in respect of personal injuries, traffic accidents, damage to property etc, suffered by civil servants or by others.

Special severance payments are paid to employees beyond and above normal statutory or contractual requirements when leaving employment in public service whether they resign, are dismissed or reach an agreed termination of contract. See the section of the SPFM on [Severance, Early Retirement and Redundancy Terms](#).

Ex gratia payments are payments made where there is no legal obligation to pay. There must always, however, be good public policy grounds for making such payments. Into this category will fall some out of court settlements, such as cases where the pursuer has no legal case but the government wants to stop the litigation because it is costly in time and resources. It would not however include cases where the settlement is a negotiated price to settle a potentially higher legal liability.

Other examples of ex-gratia payments would be payments as compensation for distress or loss arising from a perceived failure of the government but where there was no legal obligation to pay or awarding a dismissed office holder a gratuity that went beyond any legal entitlement by virtue of his/her employment as a type of reward for going with good grace and minimum disruption of services.

Asset Disposal Framework - Extract

The following is an extract from [Procedure Notes for the Disposal of Exchequer Funded Assets and the Retention of Proceeds by FE Colleges \(SFEFC Circular Letter No FE/48/2000\)](#)

Review of Exchequer-funded Land and Buildings

4. The *Financial Memorandum*, at paragraph 30, requires colleges to develop, periodically review and update an Estates Strategy as part of a sound management approach to its estate. As part of this process, colleges are required to keep their holdings of Exchequer-funded land and buildings under review, with the objective of rationalising and disposing of those holdings which colleges consider, in light of their Estates Strategies, to be no longer needed.

Approval to Dispose and Retention of Proceeds

5. Under the terms of the *Financial Memorandum* between the SFEFC and colleges, Council may determine, and from time to time vary, the amount of disposal value of any land and buildings, including any acquired or developed using Exchequer funds, at and above which the prior approval of the Council to dispose is required.
6. For the purposes of these *Notes*, reference to “proceeds of the sale” should be taken to mean Gross Sale Value.
7. For the purposes of these *Notes* the threshold at or above which prior Council approval is required, has been set at **£500k**. For any transaction **at or above** this threshold, Council approval will be required prior to

initiating the sale of the asset **and** for the retention of the proceeds from the sale.

8. Diagram 1 (attached) illustrates the various procedures stated in these *Notes* that are required by the Council.

Sale of the Asset

9. The general criteria for the disposal of Exchequer-funded assets are as follows:
 - (i) where the asset is to be sold and the proceeds of the sale are likely to be **at or above the £500k threshold, prior Council approval of the sale is required;**
 - (ii) where the asset is to be sold and the proceeds of the sale are likely to be **less than the £500k threshold, the college has delegated authority to process the sale, subject to paragraph 11 below.**

Retention of Sale Proceeds

10. The general criteria for the retention and reinvestment of proceeds from the sale of Exchequer-funded assets are as follows:
 - (i) where the sale proceeds to be retained are likely to be **at or above the £500k threshold, prior Council approval is required;**
 - (ii) where the sale proceeds to be retained are likely to be **less than the £500k threshold, the college has delegated authority to reinvest the proceeds, subject to paragraph 11 below.**

Processing of Disposal and Retention

11. Irrespective of whether the college has delegated authority to dispose of an Exchequer-funded asset and retain the proceeds of sale, it should ensure that:
 - (i) its Board of Management has resolved that the property is surplus to requirements;
 - (ii) the disposal of the property and re-investment of the proceeds is consistent with a sound Estates Strategy for the college;
 - (ii) the college has obtained and acted upon a valuation or range of valuations from a reputable Property Agent, which take account of the

most valuable use of the property for which planning permission could reasonably be expected to be obtained;

- (iii) throughout the disposal, the college will seek to achieve value for money in terms of securing the optimum value for the disposal. (College discretion may be necessary on whether the best value for money for disposal of an asset is through open market disposal or some other mechanism. This decision should be made acting on the advice of a reputable Property Agent.)

Lease of the Asset

12. The general criteria for the leasing of Exchequer-funded assets are as follows:

- (i) where the asset is to be leased for a period of **5 years duration or more, prior Council approval is required;**
- (ii) where the asset is to be leased for a period of **less than 5 years duration, the college has delegated authority to process the lease;**
- (iii) in the case of (ii) above, subject to meeting the conditions contained in paragraph 3 of Annex, the college must inform the Council within 15 working days of the signing of the lease. (The Council accepts that this procedure may be administratively burdensome for some colleges with significant numbers of small leased properties. In such circumstances the Council may be prepared, upon application from a college, to consider waiving this requirement and consider these applications on their individual merits in order that the most efficient and effective arrangements can be put in place.)

Transfer of Exchequer-funded Assets

13. Colleges should **not**, without the approval of the Council, transfer the title or grant any interest or licence in land or buildings which were acquired or developed in whole or in part using Exchequer funds **unless**:
 - i) the transfer or grant is by means of sale or lease for optimum value (in which case the relevant conditions apply); or
 - ii) the transfer or grant is to a subsidiary undertaking and contains a direct covenant by the transferee with the Council that the transferee will observe the relevant Council controls, and that the covenant is guaranteed by the college.
14. Where neither of the above apply, the college should seek the prior written approval of the Council for the transfer or grant.

Resource Budget Return Check List
For period ending 31 March 2016

Resource Return Line	Income and Expenditure	Action	Resource Classification
1	SFC grant	Ensure the full SFC cash grant for 2015/16 as shown in the cash flow return is drawn down by 31 March 2016.	
2	FE/HE Childcare	The cash received from the SFC for 2015/16 should be entered on this line	
3	Student Support Bursary	The cash received from the SFC (including any redistribution) for 2015/16 should be entered on this line	
4	Student Support Discretionary	The cash received from the SFC (including any redistribution) for 2015/16 should be entered on this line	
5	Profit or (Loss) on disposal of a non- current asset.	Profit increases Resource budget available loss reduces resource budget available. The profit/loss is calculated after the cost of sale. If there is any unused deferred capital grant related to the sold asset you should contact SFC for advice. Further detail is provided in Communication 14.	

6	Other Income	Fully accrued. This should include the income the college has received and is due to 31 March 2016. Income should be shown gross and related expenditure should not be netted off. Deferred income received in 2015/16 should be excluded Deferred income released in 2015/16 should be included to offset the related expenditure EMA administration grant should be included	
7	UHI HE Funding (UHI colleges only)	UHI incorporated colleges should disclose their UHI HE income on this line	
	Expenditure		
8	Wages and Salaries	Should be on an accrued basis and match the costs in the I&E account. This line should also include holiday pay accrual (see page 9 for detail) Any offsetting income should be included under the income section.	RDEL
9	Gross Operating costs	Accrued basis. Should be gross costs. Any offsetting income should be included under the income section.	RDEL
10	FE/HE Childcare	This should include all expenditure on an accrued basis up to 31 March	RDEL
11	Student Support Bursary	This should include all payments made. Where colleges are paying in arrears expenditure should be accrued up to 31 March.	RDEL

12	Student Support Discretionary	This should include all payments made. Where colleges are paying in arrears expenditure should be accrued up to 31 March.	RDEL
13	Bad Debt	<p>This line should <u>not</u> be used to record bad debt write off related to a pre 31 March 2014 provision. These write offs should be excluded from the resource return as they have already been charged to the college I&E account in the prior year.</p> <p>Bad debt provision from 2014/15 onwards should be charged to this line to match the charge to the I&E account.</p> <p>When the debt is actually written off it will have no resource impact</p>	RDEL
14	Utilisation of pre 31 March Provision (negative)	This should match the settlement of the pre 31 March provision. This provision should have been agreed by your auditors and included in your Balance Sheet at 31 March 2014.	Negative RDEL
15	Donation to an ALF	<p>If colleges make a donation to an ALF it requires to be made by 31 March 2016 and colleges require to have both the cash and resource budget cover to make the donation.</p> <p>Donations can be accrued subject to the college board minute approving the amount that will be donated by 31 March.</p> <p>However while colleges can draw down their full cash budget for 2015/16 the accrual would mean that the cash would be paid out in 2016/17 and they would potentially hold large cash balances at 31 March which could draw adverse comment from Scottish Government</p>	RDEL

		as colleges would be drawing down cash in advance of need. Colleges should be aware that Audit Scotland have recently raised concerns in regard to public bodies holding large cash balances at 31 March. In order to mitigate this the preferred option would be for colleges to make as high a cash transfer as possible at 31 March, thereby minimising any potential accrual.	
	Capital DEL		
16	SFC capital grant (negative)	<p>Ensure cash grant from the SFC for 2015/16 is drawn down as required to meet college capital expenditure.</p> <p>If the college cannot use the SFC capital grant on capital items it should not be drawn down.</p> <p>Capital grant cannot be carried forward to the next financial year.</p> <p>Any under/overspend on the capital resource budget should be notified to the SFC asap.</p> <p>Unspent capital grants carried forward from 2014/15 as deferred income should be excluded from the return together with the related expenditure.</p>	Negative CDEL
17	Income from disposal of non-current asset. (negative) (Net book value of disposal of non-current assets)	<p>It is the sale proceeds up to the net book value that scores as negative capital DEL and increases the capital funds available to the college. The retention by the college of these funds must comply with the SFC guidance.</p> <p>The difference between the net book value and the sale value ie the</p>	Negative CDEL

		profit or loss on sale scores in RDEL Profit or (loss) on disposal Line 5	
18	Non-government capital income other external Income (negative)	Other grants and donation etc. are treated as negative CDEL and provide additional capital expenditure resource to colleges.	Negative CDEL
19	Receipts from ALF (negative)	ALF capital grants from an ALF is treated as negative CDEL and provides additional capital expenditure resource to the college	Negative CDEL
20	Capital additions to non-current assets	The total expenditure on capital additions should be entered here on an accrued basis.	CDEL
	Ring Fenced RDEL		
21	Depreciation	Depreciation (before deferred capital grant release) Depreciation related to donated assets or assets funded from private sector grants (also applies to partial element of assets). College will require to undertake an apportionment between the public and non-public funded element.	Ring Fenced RDEL AME
22	Deferred Capital Grant Release (negative)	Should be deducted from the gross depreciation charge to arrive at the net depreciation charge. It should be entered as a negative amount	
23	Amortisation	Any Amortisation costs should be entered on this line	Ring-fenced RDEL

24	Impairments (where not classed as AME)	<p>An annual impairment review should be undertaken by 31 March 2016. This review need not be undertaken by a professional unless the college identifies that an impairment is likely in which case it will need to be professionally assessed. If there is an impairment you are required to determine if it is RDEL or RAME based on the classification guidance given in the Consolidated Budget Guidance.</p> <p>If the impairment is RDEL, (eg loss or damage from normal business operations, abandonment of projects, over specification of assets) it should be entered on this line. If in doubt check with the SFC.</p> <p>Any impairment will in the first instance be charged to the revaluation reserve with any reduction over the value of the revaluation reserve being a charge to RDEL</p>	RDEL
	AME		
25	Provision (where agreed as AME) created or increased/decreased during FY 2014/15	<p>Pre 31 March 2014 provisions increase/decrease Increase/decrease to pre 31 March 2014 provisions require to be treated separately from the existing provision at 31 March 2014. The existing provision is the provision that appears in the Balance Sheet at 31 March 2014. The total of this provision is fixed and settlements from it appear on Line 14</p> <p>Any increase to the pre 31 March 2014 provision will be a charge to</p>	AME

		<p>AME. (Line 25). In effect this is treated as a new provision (see below) Any decrease in the pre 31 March 2014 provision should not be entered on the resource return. The release of cash to settle a pre 31 March 2014 provision will be a charge to RDEL in the year of release and be included in Wages and Salaries (Line 8), Gross Operating Costs (Line 9), as appropriate.</p> <p>Given the different resource treatment of pre 31 March 2014 provisions as appearing in the college balance sheet at 31 March 2014 whose settlement results in a negative entry on (Line 14) and any additions to the pre 31 March 2014 provision whose settlement does not result in a negative entry on (Line 14), colleges will need to separately identify them.</p> <p>New Provisions set up after 31 March 2014 New provision set up after the 31 March 2014 will be charged to AME when set up (Line 25).</p> <p>Any decrease in a provision that does not result in the release of cash should be entered as negative AME (Line 25).</p> <p>The amount released in cash to settle the provision will be charged to RDEL. Wages and Salaries (Line 8), Gross Operating Costs (Line 9), as appropriate.</p>	<p>RDEL</p> <p>AME</p> <p>Negative AME</p> <p>RDEL</p>
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		<p>annual basis. SFC also provides the net real rate on interest that determines the discount factors to applied to the liability and the calculations should colleges wish to update in year. Actuarial valuations are also undertaken periodically. Using the spreadsheet colleges should be able to estimate the liability at 31 March 2016. (Line 25). This method could also be used to calculate the liability at 31 July 2016</p> <p>The actual payment to the scheme would be a charge to RDEL (Line 8) Wages and Salaries</p> <p>Any decrease in the provision which does not result in a cash movement should be entered as negative AME</p> <p>2 Conduct an annual valuation at 31 July</p> <p>Under both the above options the college can, if the provision the college is creating in the FY is less than £1m, charge it to RDEL in the year it is created. This approach simplifies the accounting treatment as the charge to the I&E account would match the charge to the resource return. When the provision is released it would represent a balance sheet entry. In addition colleges would not require separate provisions based on pre 31 March 2014 and post 31 March 2014. Colleges need to ensure that they have the RDEL resource budget</p>	<p>RDEL</p> <p>Negative AME</p>
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		<p>cover.</p> <p>If you intend to use this option please discuss with the SFC beforehand</p> <p>Any decrease in the provision not resulting in a cash movement should be entered as negative RDEL on the same expenditure line as the original provision was accounted for. This can arise if the college has overstated the initial charge and subsequently revalued the provision downwards.</p> <p>Colleges could if they wish use the spreadsheet approach to provide a figure for the 31 March 2016 resource return and either use the spreadsheet or have a valuation at 31 July 2016 for their annual accounts.</p>	Negative RDEL
27	Depreciation on assets funded by capital grants from private sector/donations/lottery	<p>Any depreciation costs relating to assets funded by non-exchequer grant should be entered on this line and should be net of the deferred grant credit. This will include assets funded by an ALF grant.</p> <p>Where the asset is part funded by exchequer and private grant the depreciation should be apportioned between this Line and Line 21 Depreciation.</p> <p>Following the implementation of the new FE/HE SORP from 1 August 2015 colleges will not be able to defer capital grant for assets funded from private sector/donations/lottery, therefore the annual FY depreciation charge associated with these asset should be entered here.</p>	

28	Impairments (where agreed as AME)	<p>An annual impairment review should be undertaken by 31 March 2016. This review need not be undertaken by a professional unless the college identifies that an impairment is likely in which case it will need to be professionally assessed. If there is an impairment you are required to determine if it is RDEL or RAME based on the classification guidance given in the Consolidated Budget Guidance.</p> <p>If the impairment is AME (ie arises as a result of catastrophe, unforeseen obsolescence, write down: of development land to open market value, or specialised properties from depreciated replacement cost to open market value or newly constructed specialised properties to depreciated replacement cost on the initial valuation) it should be entered on this line</p> <p>Any impairment will in the first instance be charged to the revaluation reserve with any reduction over the value of the revaluation reserve being a charge to AME</p> <p>If in doubt check with the SFC</p>	AME
	Other Items that may impact on Resource Budget		
	Any Movement in untaken annual leave between 31 March 2015 and 31 March 2016	<p>Colleges will need to do this calculation.</p> <p>Any increase will be a charge to RDEL and any reduction will be negative RDEL when compared to the opening balance at 31 March</p>	Ring fenced DEL

		<p>2015.</p> <p>If there is a movement between 31 March 2015 and 31 March 2016 colleges should check with their auditor to determine if the movement is material or can be ignored. The movement if material should be included in Wages and Salaries (Line 8).</p>	
	Capital repayment of Loan and/or lennartz debt	Capital repayments are outwith the resource budget.	No resource impact
	Interest on outstanding loan and lennartz debt	Interest is a charge to RDEL and should be included in Gross Operating costs (Line 9).	RDEL
	Revaluation of assets	<p>There are options available to colleges to revalue their property under the FReM</p> <p>A quinquennial valuation supplemented by annual indexation and no interim professional valuation or;</p> <p>An annual valuation.</p> <p>To value their assets at 31 July 2016 colleges could use their last professional valuation and index it up to the 31 July 2016 using eg the tables provided by RICS, or undertake a professional valuation at 31 July 2015.</p> <p>The revaluation at 31 July will provide the basis of the RDEL depreciation charge for the 2016/17 FY.</p> <p>Revaluation above Historic Cost will not score against the resource</p>	No resource impact

		<p>budget</p> <p>Revaluation losses (below historic cost) due to changes in market prices are charged to Impairments, where agreed as AME (Line 28).</p> <p>Revaluation losses (below historic cost) due to consumption of economic benefits or service quality deterioration are charged to Ring fenced RDEL - Impairments , where not classed as AME. (Line 24).</p> <p>Any movements in the revaluation reserve should not be included in the resource return.</p> <p>Where an asset was previously impaired the increase in asset value is a credit charge to AME if there has been a charge against the AME budget in the past. This would only be up to the amount previously impaired. – Impairments, where agreed as AME (Line 24).</p>	<p>AME</p> <p>Ring fenced RDEL</p> <p>Negative AME</p>
	Asset Acquisition details	<p>Colleges should enter here any intended purchase of land, buildings, or major equipment.</p> <p>This should include a brief description of the asset, reason for acquisition, proposed date of acquisition and cost.</p> <p>This cost will be included in Line 20 (Capital additions to non-current assets) when the procurement takes place</p>	
	Asset Disposal details	<p>Colleges should enter here any intended disposal principally of land or buildings.</p> <p>This should include a brief description of the asset, reason for the</p>	

		<p>disposal, proposed date of disposal, forecast sales proceeds and cost of sale.</p> <p>This income should be included in Line 17 (Income from the disposal of non-current assets) when the sale takes place</p> <p>Colleges are reminded that the income from the sale of a capital asset must be used in the year it is received otherwise the cash cannot be used.</p> <p>Further detail is provided in Communication number 14. Please discuss any planned disposal with SFC as early as possible.</p>	
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**Pensions (Funded Scheme)
Resource Return and Accounting Entries**

Annex

The annual movement on the pension liability scores against RAME.

The actual employers contribution costs to the scheme for the year are charged to RDEL.

Two options for the calculation are shown below;

<u>Option 1</u>	<u>£'000</u>	
Total Pension Liability - Current Year	10202	31 March 2014
Total Pension Liability - Prior Year	<u>7178</u>	31 July 2013
Movement in Pension Liability	<u><u>3,024</u></u>	
AME of which charged to:		
	I&E 250	Movement in Liability = + AME
	STRGL <u>2774</u>	
	<u><u>3,024</u></u>	
<u>Option 2</u>		
<u>I&E</u>		
Current Service Cost	844	Only current cost is a charge to RDEL = + RDEL
Past Service Costs / Curtailments & Settlements	8	
Contributions by Employer	-643	
A Sub-total (included in Staff Costs)	209	
Projected Return on Assets (Interest on Obligation)	982	Movement in Liability = + AME
Expected Return on Assets	-941	
B Sub-total (included in I&E)	41	
Total I&E - (A + B)	250	

