Universities UK

Statement of recommended practice:

accounting for further and higher education

Universities UK MANAGEMENT GUIDANCE

RECOMMENDED PRACTICE

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Foreword

This Statement of Recommended Accounting Practice (SORP), which takes effect from 1 August 2003, reflects the changes in recent Statements of Standard Accounting Practices (SSAPs), Financial Reporting Standards (FRS), and in best accounting practice since 2000 when the current SORP came into effect.

As previously, the SORP combines the requirements of institutions of both further and higher education throughout the United Kingdom, reflecting the collaboration between the key stakeholders – the Higher and Further Education Funding Councils, the representative bodies, accounting practitioners and the Accounting Standards Board – all of whom are represented on the HE/FE SORP Board. The Board has been admirably supported by the secretariat of Universities UK and by a Technical Advisory Group drawn from the Finance Directors of institutions of further and higher education. Miles Hedges, the Finance Director of the Open University and Chair of that Group deserves particular mention for his very considerable input.

The SORP allows institutions to provide consistent and comparable financial information to a range of stakeholders and other interested parties, demonstrating and enhancing their public accountability for a combined gross income which approaches £20 billion per year.

Professor John Bull

Chairman of the HE/FE SORP Board

July 2003

Preface

This new Statement of Recommended Accounting Practice (SORP) is the second to combine the requirements of institutions in the Further and Higher Education sectors. It has developed from the previous SORP for Higher Education Institutions and a similar series of accounting requirements operating in Further Education Institutions.

Further and Higher Education institutions (institutions) come from a variety of backgrounds, having been founded as Universities or Polytechnics or Colleges. They differ in size and complexity. All have charitable status, though not all are 'exempt' charities, and some are companies limited by guarantee. These institutions form a separate identifiable group with special characteristics and are therefore outside the scope of the Charities SORP.

The financial statements of institutions should, as far as possible, be prepared on a comparable and consistent basis. They should, where possible, be prepared on a similar basis to the accounts of other corporate organisations, and should follow all relevant accounting standards, including those introduced after the publication of this SORP. The Statement of Recommended Practice which follows takes account of best accounting practice, the requirements of Funding Councils, the accounting provisions of the Companies Act and any other relevant legislation, Statements of Standard Accounting Practice (SSAPs), and Financial Reporting Standards (FRS). The concept of the "true and fair view" is regarded as of paramount importance.

It is recognised that from time to time it will be necessary to review this Statement of Recommended Practice in response to changes in accounting practices.

Statement by the Accounting Standards Board (ASB)

The aims of the Accounting Standards Board (the ASB) are to establish and improve standards of financial accounting and reporting, for the benefit of uses, preparers, and auditors of financial information. To this end, the ASB issues accounting standards that are primarily applicable to general purpose company financial statements. In particular industries or sectors, further guidance may be required in order to implement accounting standards effectively. This guidance is issued, in the form of Statements of Recommended Practice (SORPs), by bodies recognised for the purpose by the ASB.

The HE/FE SORP Board (the SORP Board) has confirmed that it shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the SORP Board has agreed to follow the ASB's code of practice for bodies recognised for issuing SORPs.

The code of practice sets out procedures to be followed in the development of SORPs. These procedures do not include a comprehensive review of the proposed SORP by the ASB, but a review of limited scope is performed.

On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB's code of practice and does not appear to contain any fundamental points of principle that are unacceptable in the context of present accounting practice or to conflict with an accounting standard or the ASB's plans for future standards.

24 July 2003

Introduction

Background

Further and higher education institutions are complex organisations whose main activities are teaching and research. They are autonomous bodies established by Royal Charter, Act of Parliament or other instrument. Teaching is provided for students from the United Kingdom, the European Union (EU) and for other nationalities across the whole range of academic and vocational subjects. As well as full-time and part-time education, institutions also provide special and short courses for vocational and non-vocational continuing education. Research is carried out within most higher education institutions. 1

In addition to teaching and research, institutions frequently have a range of other distinctive activities which are incidental to their main activities, including the provision of student residences, catering and other services. Many have established limited liability companies, consortia, partnerships or joint ventures to carry out particular kinds of collaborative and commissioned research and other income generating and commercial activities. 2

Funding

Institutions receive their funding from three main sources: 3

(a) public funds in the form of grants direct from the responsible Funding Councils; student tuition fees paid from public funds; research grants and contracts awarded by research councils, the European Union and government departments; in certain cases, funding is received directly from government departments or agencies; many institutions also receive significant funds from the EU for the provision of education, training and related services;
(b) the provision of services, contract and other research and consultancy, conference and accommodation facilities, staff/student residences and catering, and tuition fees paid wholly or partly by students or employers;
(c) bequests, endowments and donations which may be for general purposes, or restricted by legally binding conditions to specific purposes.

Income falls into two broad categories: 4

(a) income which can be applied at the discretion of the institution to any of its activities; such income is referred to as 'General Income' and examples include recurrent grant from the Funding Councils (which may have some restrictions), student tuition fees and income earned by the institution from its activities;

(b) income which is for specific purposes, such purposes being designated by the grant-making body or donor under a specific agreement or contract, and which can only be applied for those specific purposes. Examples include the income from research grants and grants for specific purposes from Funding Councils. Such income is only credited to the income and expenditure account when the conditions attaching to its receipt have been met, such as incurring the appropriate expenditure, including expenditure on indirect (overhead) costs.

Objectives of an Institution's Reports and Financial Statements

5 The objectives of published Reports and Financial Statements (as defined in paragraph 8) are governed by the needs of users and potential users. Published Reports and Financial Statements should give a true and fair view of the institution's financial performance and financial position so that they may be of use, and relied upon, by users, or potential users, of the information contained therein. Reports should be consistent with the Financial Statements.

6 The users, to varying degrees, of an institution's Reports and Financial Statements are:

(a) the governing body of the institution;
(b) the Funding Councils;
(c) government departments and Parliament;
(d) the institution's employees (past, present and future);
(e) the institution's students (past, present and future);
(f) lenders and creditors;
(g) other institutions, schools and industry;
(h) grant-awarding bodies, donors and benefactors;
(i) the general public.

Many of these users will also be interested in the non-financial reports of institutions.

These user groups may have differing needs in detail, but certain key elements, including the need for clarity, comparability and accountability, are common to all. The main objectives of the Reports and Financial Statements are, therefore, to provide the following information: 7

(a) a true and fair view of the financial position of the institution at the balance sheet date and of the income and expenditure and cash flows for the period then ended;
(b) an explanation of how the institution is governed and managed;
(c) a suitable analysis of:
    (i) the income from all sources within the period of the accounts;
    (ii) the expenditure on all activities within the period of the accounts;
    (iii) the Assets and Liabilities of the institution, classified in suitable form;
    (iv) any known or probable circumstances which might significantly affect its financial position;
    (v) how the institution is performing financially, including the adequacy of the working capital, its solvency (or insolvency), and its investment performance.

Definition of terms

8 The definitions which follow have been adopted for the purposes of this statement. The definitions are necessarily summarised and where an FRS or SSAP is referred to this should be read in order to gain a full understanding of the context of the definitions.

Accounting Policies	are defined in FRS 18 as those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its Financial Statements.
Accounts	comprise the income and expenditure account (including footnotes), the balance sheet, the cash flow statement and the statement of total recognised gains and losses.
Assets	are defined in FRS 5 as the rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.
Associates	are defined in FRS 9 as an entity (other than a Subsidiary Undertaking) in which another entity (the investor) has a participating interest and over whose operating and financial policies the investor exercises a significant influence.
Capital Grants	are those grants that have been specifically identified by the grantor to be used for the purchase, construction or development of Assets.
Contingent Liability	is defined in FRS 12 as either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control or a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required or because the amount cannot be measured reliably.
Current Asset Investments	are those investments other than Fixed Asset Investments or Endowment Asset investments.
Deferred Capital Grants	are those capital grants where an Asset purchased with such a grant has been capitalised. The Deferred Capital Grant related to the Asset is included in the balance sheet and released to the income and expenditure account over the life of the Asset to which it relates.

Endowment Assets	are those Assets held for endowment funds where the terms of the endowment require the income and/or the capital of the funds to be used for specific or general purposes of the institution.
Estimation Techniques	are defined in FRS 18 as the methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for Assets, Liabilities, gains, losses and changes to shareholders' funds. Estimation Techniques implement the measurement aspects of Accounting Policies.
Financial Statements	comprise the Accounts, the statement of Accounting Policies and the notes to the Accounts.
Fixed Asset Investments	are those investments intended to be held for use on a continuing basis. An investment should be classified as a Fixed Asset only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions regarding the investor's ability to dispose of the investment.
Funding Councils	refers to the non-departmental public bodies whose role is to distribute public funds to further education and higher education institutions. They include the Higher Education Funding Councils for England, Scotland and Wales; the Learning and Skills Council, the Scottish Further Education Funding Council, National Council for Education and Training for Wales and the Teacher Training Agency. It also includes the Department for Employment and Learning, Northern Ireland.
FRS	refers to a Financial Reporting Standard published by the Accounting Standards Board in the United Kingdom.
General Endowments	are bequests and gifts where the use of the capital and income, or only the income, is for the general purposes of the institution.
General Income	refers to income that can be applied to any activity of the institution at the discretion of the institution. Examples of such income are Funding Council recurrent grant (which may have some restrictions), tuition fees and income from General Endowments.

Group	refers to the institution and all its Associates and Subsidiary Undertakings.
Joint Venture	is defined in FRS 9 as an entity in which the reporting entity holds an interest on a long-term basis and is jointly controlled by the reporting entity and one or more other ventures under a contractual arrangement.
Liabilities	are defined in FRS 5 as an entity's obligations to transfer economic benefits as a result of past transactions or events.
Materiality	is an expression of the relative significance or importance of a particular matter in the context of the Financial Statements as a whole. A matter is material if its omission would reasonably influence the decisions of the users of the institution's Reports and Financial Statements. Likewise, a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the Financial Statements or of individual items included in them. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects.
Provision	is defined in FRS 12 as a liability of uncertain timing or amount.
Related Party Transaction	is defined in FRS 8 as the transfer of Assets or Liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.
Reports and Financial	comprise the Financial Statements, a statement of corporate
Statements	governance, a statement of the responsibilities of the council, board of governors or institutional equivalent, the auditors' report and the treasurer's report or members' report (or institutional equivalent). (In addition, for English further education institutions, a statement of the system of internal financial control.)
Revaluation Reserve	is the sum of unrealised amounts arising from the revaluation of the institution's Tangible Fixed Assets.

Specific Endowments	are bequests and gifts where the use of the capital and income, or only the income, is for a specific purpose or activity so designated by the donor and which can only be used for that purpose or activity.
Specific Income	is income that can only be applied to a specific purpose or activity so designated by the grantor or donor. Examples of such income are Funding Council grants for specific purposes, research grants and some research contracts and income from Specific Endowments.
SSAP	refers to a Statement of Standard Accounting Practice published by the Accounting Standards Board in the United Kingdom.
Subsidiary Undertaking	is analogous to the definition in the Companies Act and FRS 2 and is a body corporate or partnership or unincorporated association carrying on a trade or business with or without a view to profit.
Tangible Fixed Assets	are defined in FRS 15 as those Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities.
UITF Abstracts	refer to the Urgent Issues Task Force Abstracts which are issued by the Accounting Standards Board in the United Kingdom.

Statement of recommended practice (SORP)

Scope

9 The recommendations in this statement are intended to be applicable to all further and higher education institutions in the United Kingdom. They need not be applied to immaterial items.

10 Every institution should prepare, on an annual basis, Reports and Financial Statements as defined in paragraph 8.

Basis of Accounting

11 The Financial Statements should be prepared in accordance with applicable accounting standards on an accruals basis. Income from earmarked sources is accounted for in the income and expenditure account in line with the associated expenditure, as the institution has no right to the income until it has complied with the conditions attaching to the earmarked source by incurring the qualifying expenditure.

12 Institutions should adopt Accounting Policies that are judged to be the most appropriate for giving a true and fair view and should keep such policies under review.

13 The Financial Statements should be prepared using the historical cost convention as modified for the revaluation of certain Assets. Where Assets have been revalued, a note of historical cost surpluses and deficits should follow the income and expenditure account (as set out in FRS 3). Financial Statements should contain a positive statement that they are prepared in accordance with applicable accounting standards and this SORP and any material departures therefrom should be explained clearly in the Financial Statements.

14 The consolidated Financial Statements should give a true and fair view of the state of affairs of the group and the institution at the balance sheet date and of the group's results and total recognised gains and losses and cash flows for the year then ended, whether channelled through the institution as an entity or through one or more Associates or Subsidiary Undertakings.

15 All institutions must comply with the financial reporting requirements contained in any UK legislation relevant to their constitution. In particular, the relevant Funding Councils may issue an accounts direction. Compliance with such an accounts direction is a condition of grant. Where an institution is constituted as a company, the Financial Statements must be properly prepared in accordance with the provisions of the Companies Act. Where a separately established Subsidiary Undertaking is a charity, that subsidiary's Financial Statements should comply with the Statement of Recommended Practice 'Accounting and Reporting for Charities'.

Consolidation

Where an institution has Associates or Subsidiary Undertakings, the Financial Statements should be prepared on a consolidated basis in accordance with FRS 2 and FRS 9. The Financial Statements of all Subsidiary Undertakings to be used in preparing the consolidated Financial Statements should, wherever practicable, be prepared to the same financial year-end and for the same accounting period as the parent institution. 16

Where an Associate or Subsidiary Undertaking's financial year does not coincide with that of the institution, interim Financial Statements should be prepared to the same date as the parent institution. Where an Associate or Subsidiary Undertaking's financial year does not coincide with that of the institution but ends within three months before the parent institution's year-end, and it is not practicable to use interim Financial Statements, the Financial Statements of the Associate or Subsidiary Undertaking for its last financial year should be used. In such cases, material changes in the intervening period should be taken into account by adjustments in the preparation of the consolidated Financial Statements. 17

The Financial Statements must disclose for each Associate or Subsidiary Undertaking which is included in the consolidated Financial Statements on the basis of information prepared to a different date, or for a different accounting period from that of the parent undertaking: 18

(a) the name of the Associate or Subsidiary Undertaking;
(b) the accounting date;
(c) the reason for using a different accounting date;
(d) the accounting period, if it is of a different length from that of the institution.

Where an Associate or Subsidiary Undertaking is excluded from consolidation, the notes to the Accounts must disclose: 19

(a) the name of the Associate or Subsidiary Undertaking excluded;
(b) any qualification contained in the auditors' report on the Associate or Subsidiary Undertaking's Financial Statements for the relevant financial year;
(c) the aggregate amount of the Associate's or Subsidiary Undertaking's capital and reserves at the end of its relevant financial year and its profit or loss for the period, unless the Associate or Subsidiary Undertaking is included in the consolidated Financial Statements using the equity method;
(d) the reasons why the Associate or Subsidiary Undertaking is not dealt with in the consolidated Financial Statements;
(e) details of balances and transactions between the excluded Associate or Subsidiary Undertaking(s) and the rest of the Group;

(f) details of dividends and investment write-downs in cases where equity accounting has not been applied;
(g) separate accounts for Associate or Subsidiary Undertakings excluded under the 'different activities' clause of FRS 2;
(h) any guarantees or indemnities given by the Group or a member of it in respect of the Associate or Subsidiary Undertaking.

20 The circumstances under which an Associate or Subsidiary Undertaking may not be consolidated are set out in paragraph 49 below.

Accounting for Tangible Fixed Assets

21 Land and buildings should be capitalised and should be included in the balance sheet at cost or valuation. All institutions will by now have adopted one of the three options available under the transitional arrangements of FRS 15. One option was to adopt a revaluation policy, the remaining two dealt with alternatives to not adopting a revaluation policy. Accounting treatment for each option is summarised below.

22 Where an institution adopted a policy of revaluation, paragraph 42 of FRS 15 requires that revaluations should be applied to entire classes of Tangible Fixed Assets, but need not be applied to all classes of Tangible Fixed Assets. This means that where an individual Tangible Fixed Asset is revalued, then all other Tangible Fixed Assets in the same class must be revalued. Classes of Tangible Fixed Asset will normally follow the balance sheet notes, but may be subdivided according to definitions arising from an institution's operations where the following requirements must be met:

(a) increases in value should be taken to the Revaluation Reserve except to the extent that they reverse revaluation losses on the same Asset that were previously recognised in the income and expenditure account, in which case they should be recognised in the income and expenditure account;
(b) decreases in value should be set first against any previous revaluation surplus and any balance should be taken to the income and expenditure account provided that an impairment caused by a clear consumption of economic benefits should be taken into the income and expenditure account even where the Asset has been revalued;
(c) valuations must be updated on a regular basis with a professional valuation being undertaken at least every five years;
(d) an interim valuation should be carried out in the third year after a full valuation by a qualified valuer who may be either internal or external to the institution.

Where the institution did not adopt a policy of revaluation, it had two options: 23

(a) to restate Tangible Fixed Assets to historical cost (less depreciation), as a change of accounting policy;
(b) to hold Tangible Fixed Assets at their book amounts, subject to the requirement to test them for impairment in accordance with FRS 11 if an indication exists that impairment may have occurred.

Where the institution had opted to hold Tangible Fixed Assets at their book amounts disclosure is required that the institution had taken advantage of the transitional provisions of FRS 15, the date of the last valuation and that the valuation had not been updated. Institutions which took advantage of this option should disclose: 24

(a) the amount of Fixed Assets held at valuation;
(b) the years of valuation and the basis adopted;
(c) the historical cost equivalents for the revalued Assets;
(d) the amount of a revaluation reserve and any transfers from that reserve to realised reserves;
(e) a note of historical cost profits as required by FRS 3;
(f) disclosure of historical cost and depreciation – paragraph 74 (a)(iv) of FRS 15.

These disclosure requirements can be satisfied by the note of historical cost surpluses and deficits which follows the income and expenditure account and by additional text disclosures within the notes on Tangible Fixed Assets and the Revaluation Reserve.

Land held specifically for development, investment and subsequent sale should be treated as a current Asset and carried at the lower of cost and net realisable value. 25

Tangible Fixed Assets surplus to requirements should be held at the lower of cost and net realisable value. Net realisable value will normally be the market value, with expected directly attributable selling costs deducted if material. 26

Where an institution has Tangible Fixed Assets which are surplus to requirements in the long term, these should be tested for impairment under the provisions of FRS 11. Where it can be shown that an impairment has occurred, these Assets should be written down in value. 27

28 Where an institution is committed to the disposal of a Tangible Fixed Asset, such Assets should be carried at cost or valuation, or written down to their net realisable value, whichever is lower. Where all the following criteria are met, such Assets should be transferred from fixed Assets to current Assets (at their existing carrying value subject to impairment as noted above):

(a) the Asset is not being replaced;
(b) there is a commitment to sell the Asset (e.g. being advertised for sale);
(c) the Asset is no longer in use.

29 Tangible Fixed Assets under construction, being enhanced, or planned for disposal, should be treated as set out in FRS 15:

(a) costs incurred in relation to a Tangible Fixed Asset after its initial purchase or production should be capitalised to the extent that they increase the expected future benefits to the institution from the existing Tangible Fixed Asset beyond its previously assessed standard of performance;
(b) the cost of any such enhancements should be added to the gross carrying amount of the Tangible Fixed Asset concerned.

30 Equipment and furniture should be accounted for as Tangible Fixed Assets, subject to a reasonable materiality test. Such items should be included in the balance sheet at cost or, in respect of donated items, at valuation at the date of receipt.

31 The gain or loss arising from the disposal of Tangible Fixed Assets, calculated in compliance with FRS 3 on the carrying value immediately prior to disposal, except for any proceeds required to be surrendered under the financial memorandum between the institution and the relevant Funding Council, should be included in the income and expenditure account and, if material, disclosed separately in line with accounting standards. Any proceeds which an institution is required to surrender should be specifically identified in the Financial Statements.

32 Depreciation of all Tangible Fixed Assets should be provided for in accordance with FRS 15 which defines depreciation as "the measure of the cost or revalued amount of the economic benefits of the Tangible Fixed Assets that have been consumed during the period". Exceptions to charging depreciation may only arise if either the Asset is freehold land, or if neither the charge nor the accumulated depreciation is material (but it should be noted that in this latter case, the Asset should be subject to an annual impairment review in accordance with FRS 11).

Depreciation should be based on the amount at which the Tangible Fixed Asset is included in the balance sheet, except for freehold land which should not be depreciated. In establishing the estimated useful life of an Asset, the level of maintenance expenditure, which may have an effect on the Asset life and the consequent rate of depreciation, should be considered. A depreciable (i.e. wasting) Asset's anticipated useful economic life must be reviewed annually and the accumulated and future depreciation adjusted in accordance with FRS 15. FRS 11 reviews for possible impairment are required annually where Assets (except freehold land) are considered if events or changes in circumstances indicate that the carrying amount of the fixed Asset may not be recoverable. FRS 11 gives indicators of impairment. 33

FRS 15 requires that where a Tangible Fixed Asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. For example, a building should be split for depreciation purposes between the structure of the building and items within the structure, such as general fittings. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the Assets are charged to the income and expenditure account over the periods in which they are consumed.[1] 34

Accounting For Inherited Assets/liabilities[2]

35 Where an institution has inherited Tangible Fixed Assets from a local authority, these inherited Assets should be included in the balance sheet at valuation on the date of receipt. Future valuations should be in line with the policy adopted by the institution in respect of FRS 15. In certain exceptional circumstances, it may not be possible to obtain a value for inherited or donated Assets. FRS 15 (paragraph 18) permits an Asset to be excluded from capitalisation either where no reliable cost or valuation can be obtained or where the cost of obtaining a valuation is greater than the benefit to the users of the Financial Statements. 35

The policy must be applied on an Asset by Asset basis. Any inherited loans should be treated as a creditor, with the portion falling due within one year being treated as a current liability and the remainder as a creditor falling due after more than one year. The difference between the valuation and the outstanding loan(s) should be taken to the Revaluation Reserve. Where inherited loan costs are reimbursed by an institution's Funding Council, the interest element should be taken to the income and expenditure account within 'Funding Council grants', while the capital element should be taken directly to the Revaluation Reserve in the balance sheet. 36

Accounting for Investments

37 Listed investments held as fixed Assets or Endowment Assets should be shown at market value. Investments such as heritable property should be shown at open market value. Investments in Subsidiary Undertakings should be shown at cost, subject to a review for impairment, in the institution's balance sheet; the Subsidiary Undertaking should be included in the consolidated balance sheet in accordance with paragraphs 16-20 above. Investments in Associates, as defined in FRS 9, should be shown in the consolidated balance sheet at attributable share of net Assets (see FRS 9, paragraph 26). Current Asset Investments, which may include listed investments, should be shown at the lower of cost and net realisable value. The market value of listed investments held as Current Asset Investments should be disclosed.

38 Subject to the requirements to account for specific income in line with the associated expenditure, as described in paragraph 4 (b), all income from investments and capital increases/decreases arising on realisation or revaluation of investments should be treated as follows:

(a) income from Fixed Asset Investments, General Endowment Assets and Current Asset Investments should be brought into the income and expenditure account in full. However, where income for specific purposes follows the principle described in paragraph 4 (b), it should only be brought in to the extent that appropriate expenditure has been incurred;
(b) increases in value arising on the revaluation of Fixed Asset Investments should be carried to the Revaluation Reserve via the statement of total recognised gains and losses; a diminution in value should be charged to the income and expenditure account to the extent that it is not covered by a previous revaluation surplus;
(c) increases/decreases in value arising on the revaluation of Endowment Assets should be added to or subtracted from the funds concerned;
(d) increases/decreases in the carrying value of Current Asset Investments as set out in paragraph 37 should be brought into the income and expenditure account.

Accounting for Endowments

39 The amounts shown in the balance sheet as endowments and Endowment Assets must be identical. Where material, the aggregate accumulated income held within Specific Endowments should be shown separately from the aggregate capital of Specific Endowments within the relevant note to the Accounts.

Accounting for Capital Grants

Where an institution receives a grant to finance, or partly finance, the purchase, construction or development of an Asset, and the Asset is capitalised, the grant should be credited to Deferred Capital Grants and an annual transfer made to the income and expenditure account over the useful economic life of the Asset in proportion to the depreciation charge on the Asset for which the grant was awarded. 40

Format of Accounts

The income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses must follow the formats set out in the Appendix. 41

Notes to the Accounts

The notes to the Accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially. 42

Date from which effective

The provisions of this statement should be adopted for accounting periods ending on 31 July 2004 and thereafter. 43

Explanatory notes

Interaction With Charities SORP

44 The Statement of Recommended Practice 'Accounting and Reporting for Charities' (SORP) states that where a separate Statement of Recommended Practice exists for a particular class of charities, that separate SORP should be used in preparing the Financial Statements of such charities. The further and higher education sector has special financial and reporting issues that are different from other organisations that have charitable status, and therefore the requirements of the SORP 'Accounting for Further and Higher Education' should take precedence over the SORP 'Accounting and Reporting for Charities'.

Consolidation

45 Where an institution has Subsidiary Undertakings, consolidated Financial Statements should be prepared as defined in FRS 2 and, where relevant, the Companies Act.

46 An undertaking is a subsidiary of a parent undertaking where the parent:

(a) holds a majority of voting rights; or
(b) is a member of the undertaking and can appoint or remove directors having the majority of the votes on the board; or
(c) has a right to exercise a dominant influence over the undertaking by virtue of provisions either in its memorandum or articles or in a 'control contract'; or
(d) is a member of the undertaking and operates control via an agreement with other shareholders; or
(e) owns a participating interest in the undertaking and actually exercises dominant influence or operates unified management.

47 Further guidance on the definition of Subsidiary Undertakings is given in FRS 2, in particular paragraph 14 of the standard. In addition, consideration should be given regarding whether the undertaking is a quasi-subsidiary in terms of FRS 5, or an Associate or Joint Venture as defined in FRS 9.

48 Undertakings may be excluded from consolidation where inclusion, of all undertakings taken together, is not material.

FRS 2 requires that they must be excluded if: 49

(a) the institution's rights over the Assets, or the management, are severely restricted; or
(b) the activities of a Subsidiary Undertaking are so different and the circumstances so unusual that inclusion would not be compatible with the 'true and fair' requirement; or
(c) subsequent resale of the Subsidiary Undertaking was intended at the time of acquisition and the Subsidiary Undertaking has not previously been included in the consolidated Financial Statements.

Where Subsidiary Undertakings are excluded, FRS 2 sets out the differing treatments 50
to be adopted for each category of Subsidiary Undertaking to be excluded from the consolidation.

These circumstances are amplified in the Companies Act and FRS 2 and FRS 9 and 51
are regarded as a statement of the current 'best accounting practice' in respect of consolidation.

Each institution will need to clarify its relationship with its students' union to 52
determine whether, in the light of all relevant legislation and accounting standards, the degree of control exercised is sufficient to require consolidation.

Accounting for Tangible Fixed Assets

Institutions should conform to accounting standards for Tangible Fixed Assets, 53
revaluations and impairments. Of particular relevance are SSAP 4 'Accounting for Government Grants', FRS 15 'Tangible Fixed Assets' and FRS 11 'Impairment of Fixed Assets and Goodwill'. All the explanatory notes relating to these standards are likely to be relevant.

For valuing land and buildings, the Royal Institute of Chartered Surveyors has issued 54
guidance notes on the basis of Asset valuation, which set out the governing principles on the basis of valuation. In normal circumstances (e.g. unless the property is accounted for as an investment Asset) the standard basis is market value for existing use purposes. The notes recognise, however, that in certain circumstances such a valuation will not be easy to ascertain. That will be the case where the buildings are specialist and do not have an ascertainable market value for existing use. In such circumstances institutions should use a valuation based on depreciated replacement cost. The method used for the valuation and name and qualification of the valuer should be disclosed in the notes to the Accounts. If land is held specifically for development, investment and subsequent sale then the requirements of paragraph 25 above should be followed.

55 Institutions should take notice of the options provided within FRS 15 to continue or change revaluation practices. Where the current policy is one of revaluation, the institution should be aware of the onerous requirements to continue to keep the valuation up to date, taking into account FRS 11 dealing with impairment.

56 The capitalisation of furniture and equipment should be subject to a reasonable materiality level, determined by the institution.

57 A number of institutions occupy premises which are owned by other bodies and for which no annual or nominal rental payment is made. In some cases there may be no formal agreement to occupy. Where no formal occupancy exists, the institution may wish to consider regularising the position by the establishment of a lease or licence in respect of the premises concerned. Where an institution enjoys the use of an Asset which it does not own and for which no annual or nominal rental is paid, whether or not such use is regulated by a licence or lease, the Financial Statements must disclose this and, if practicable, a value should be attributed to this benefit and be capitalised, with a corresponding credit to the Revaluation Reserve, and thereafter depreciated over the period of use.

58 Donated Tangible Fixed Assets should be accounted for at valuation on receipt, and dealt with in accordance with paragraphs 60-62 below. Donated Land and Buildings should be valued in accordance with paragraphs 21, 22 and 54 above.

59 Costs incurred in relation to a Tangible Fixed Asset after its initial purchase or production should be treated in accordance with paragraph 29 above. Paragraph 36 of FRS 15 lists the circumstances in which subsequent expenditure should be capitalised.

Accounting For Donations And Endowments

60 Where an institution receives a donation, bequest or gift with no specific terms attached to its use, it should be recorded as income in the income and expenditure account. The expenditure should be accounted for in the period when it is incurred as either capital or revenue expenditure depending on the nature of the expenditure and the Accounting Policies of the institution.

Where an institution receives a sum of money or Assets under specific terms on condition that it applies only the income generated therefrom for any purpose specified by the governing body, the capital sum should be shown on the balance sheet as a General Endowment. The related Assets, be they cash, bonds, equities or property, should be recorded as Endowment Assets. The associated income should be credited to the income and expenditure account on a receivable basis. Any realised gains or losses from dealing in the related Assets should be retained within the General Endowment in the balance sheet. 61

Where an institution receives a sum of money or Assets under specific terms on condition that it applies the income generated therefrom for a specific purpose, the capital sum should be shown on the balance sheet as a Specific Endowment. The related Assets, be they cash, bonds, equities or property, should be recorded as Endowment Assets. The associated income should be credited to the income and expenditure account on a receivable basis. Any realised gains or losses from dealing in the related Assets should be retained within the Specific Endowment in the balance sheet. Any income earned in excess of that applied to the specific purpose should be transferred from the income and expenditure account after the result for the year has been struck to Specific Endowments in the balance sheet as the institution has no right to that element of income for its general purposes because of the restrictions of the Specific Endowment. 62

Where an institution receives a sum of money or Asset under a specific agreement or contract and it is applied to the cost of a Tangible Fixed Asset it should be shown on the balance sheet as a Deferred Capital Grant. The Deferred Capital Grant should be released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the Tangible Fixed Asset. 63

Financial and Operating Review (Treasurer's Report, Members' Report, or equivalent)

This review, which may also be called a treasurer's report, members' report or directors' report, should provide an overview of the institution's finances and operations insofar as they impact directly on the institution's financial performance and financial position. The form and content is not prescribed, but sufficient information should be provided to enable the reader to gain a reasonable understanding of the institution's financial position and key operational influences affecting the financial position. Where appropriate, the form and contents may be prescribed by the Companies Act or other requirements, such as those of the relevant Funding Council. Unless contained in separate statements, this review should also include statements of the institution's structure of corporate governance and the responsibilities of the governing body, including internal control and risk management. 64

Notes to the Accounts

65 The notes to the Accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially. Such analyses will normally include details of:

(a) the main sources of income and expenditure;
(b) the movements to and from reserves;
(c) the impact of depreciation;
(d) disclosures about retirement benefits as required by SSAP 24 and FRS 17;
(e) related party transactions;
(f) any information required by the accounts directions issued by the Funding Councils.

66 The format for the primary statements must follow the format in the Appendix (see paragraph 41). The specimen Financial Statements included in the Appendix are for illustration only. It is up to each institution to decide the appropriate degree of explanation which should be given in the notes to the Accounts.

Agency Arrangements

67 Where the institution disburses funds it has received as paying agent on behalf of a Funding Council or other body, and has no beneficial interest in the funds, the receipt and subsequent disbursement of the funds should be excluded from the income and expenditure of the institution where the FRS 5 (paragraph 54) test for the recognition of an Asset is not met, i.e. the institution does not have control over the future economic benefits.

Application of Accounting Standards

This section is provided to assist institutions in determining the relevance of SSAPs and FRSs, but because new standards are issued regularly, it is important that finance directors refer to the latest information provided by the Accounting Standards Board, including UITF Abstracts, which have the same force as SSAPs and FRSs. The summaries below should not be relied upon as a substitute for reading the full text of the standard. Reference should be made to the Accounting Standards Board's website ([www.asb.org.uk).

Institutions must follow all applicable SSAPs and FRSs and guidance from the Accounting Standards Board. The following list is a guide to the standards most likely to be relevant. 68

SSAPs withdrawn

SSAPs 1, 2, 3, 6, 7, 8, 10,11,12,14,15,16,18, 22 and 23 have been withdrawn. 69

SSAP 4: Accounting for Government Grants

This SSAP is relevant to all institutions. Revenue-based grants should be passed through the income and expenditure account when the conditions relating to the grant have been satisfied. Capital-based grants should be recognised as income over the life of the Asset to which they relate. The treatment in the examples accompanying this SORP follows these principles. 70

SSAP 5: Accounting for VAT

This SSAP is relevant to all institutions. Irrecoverable VAT on inputs should be included in the costs of such inputs. Any irrecoverable VAT allocated to Tangible Fixed Assets should be included in their cost. 71

SSAP 9: Stocks and Long-term Contracts

This SSAP is relevant to all institutions. It deals with the valuation of stocks, which are normally to be stated at cost or net realisable value whichever is lower. Other parts of the SSAP deal with valuation rules for long-term contracts, which state that it can be appropriate to take credit for ascertainable turnover and profit while contracts are in progress. These rules should be applied in relation to research grants and contracts, European and other long-term contracts. 72

SSAP 13: Accounting for Research and Development

73 This SSAP is relevant to all institutions. Costs of research should be written off as incurred. This SSAP is mainly in respect of commercial research and development (R&D) rather than higher education research but this SORP follows the same principle. The SSAP is specific (and refers to the Companies Act) that pure and applied research may not be treated as an Asset. It sets out criteria under which the R&D costs of products for commercial exploitation might be capitalised. (See also FRS 10).

SSAP 17: Accounting for Post Balance Sheet Events

74 This SSAP is relevant to all institutions. The SSAP sets out the requirements for reporting and, if applicable, for adjusting the Financial Statements in relation to such events.

SSAP 19: Accounting for Investment Properties

75 This SSAP is relevant to certain institutions. Interests in land and/or buildings that are held for their investment potential should be included in the balance sheet at their open market value without charging depreciation.

SSAP 20: Foreign Currency Translation

76 This SSAP is relevant to all institutions. Exchange gains and losses should be taken to the income and expenditure account.

SSAP 21: Accounting for Leases and HP Contracts

77 This SSAP is relevant to all institutions. The SSAP requires lessees to capitalise material finance leases. Where contracts are treated as operating leases, paragraph 37 of this SSAP needs to be considered in terms of the proper allocation to accounting periods over the period of the lease.

SSAP 24: Accounting for Pension Costs

78 This SSAP is relevant to all institutions until FRS 17 is adopted in full.

SSAP 25: Segmental Reporting

This SSAP is relevant to all institutions. However, as all institutions undertake a single segment of academic activity, which includes both teaching and research, that is undertaken by the same staff, uses the same premises and is financed from the same income streams, this SSAP will not be relevant to those institutions that do not have material segments of other activities or geographical operations. Where such material segments of other activities or geographical operations do exist then this SSAP should be applied. This SSAP requires the disclosure of turnover, segment result and segment net Assets by class of business and geographical segment where material other segments exist. 79

FRS 1: Cash Flow Statements

This FRS is relevant to all institutions. FRS 1 (revised 1996) requires institutions to prepare a cash flow statement in the manner set out in the FRS. The cash flow statement should include all inflows and outflows of cash. 80

FRS 2: Accounting for Subsidiary Undertakings

This FRS is relevant to many institutions. FRS 2 sets out the conditions under which an entity qualifies as a parent undertaking which should prepare consolidated Financial Statements for its Group, the parent and its subsidiaries. It also sets out the manner in which consolidated Financial Statements are to be prepared. A large part of FRS 2 is directly based on the Companies Act, as amended, and the requirements of the standard are consistent with the Act (parallel legislation exists in Northern Ireland). 81

FRS 3: Reporting Financial Performance

This FRS is relevant to all institutions. Its objective is to require institutions to highlight a range of important components of financial performance to aid users in understanding the performance achieved by an institution in a period and to assist them in forming a basis for their assessment of future results and cash flow. FRS 3 requires a layered format for the income and expenditure account split between continuing, newly acquired and discontinued operations. It effectively prohibits extraordinary items and requires exceptional items to be disclosed on a separate line within the activity to which they relate. FRS 3 requires exceptional profits or losses on the sale or termination of an operation, exceptional costs of a fundamental reorganisation or restructuring and exceptional profits or losses on the disposal of fixed Assets to be disclosed on the face of the income and expenditure account. 82

83 The standard also requires a statement of total recognised gains and losses to be included in the Accounts. The statement reports *inter alia* gains and losses arising on revaluations and discloses the effect of prior year adjustments. A note of historical surpluses is also required. The purpose of this note is to present the surpluses or deficits of institutions that have revalued Assets on a more comparable basis with those that have not.

FRS 4: Capital Instruments

84 This FRS is relevant to all institutions. For example, it applies to institutions using low start financing arrangements and particularly concerns the requirement to allocate the finance costs at a constant rate over the term of the borrowing. The objective of FRS 4 is to ensure that Financial Statements provide a clear, coherent and consistent treatment of capital instruments. The standard requires capital instruments to be presented in Financial Statements in a way that reflects the obligations of the issuer. The standard also prescribes the methods to be used to determine the amounts to be ascribed to capital instruments and their associated costs and specific relevant disclosures.

FRS 5: Reporting the Substance of Transactions

85 This FRS will be relevant to all institutions. FRS 5 is a statement of principle requiring the economic substance and any resulting Assets, Liabilities, gains or losses of an entity's transactions, rather than just the transaction's legal form, to be reported in its Financial Statements.

86 Where there is a series of connected transactions the economic substance of the whole series should be determined and accounted for rather than accounting for each individual transaction. In transactions that involve the granting or acquiring of options regard should be given to the likely outcome, the motives of all the parties involved and possible scenarios contemplated at the time the deal was struck when deciding the correct accounting treatment.

87 As well as the recognition of Assets and Liabilities, FRS 5 also addresses the de-recognition of Assets that can arise through the transfer of benefits and risks. It provides for complete and partial de-recognition as well as 'netting off' of Assets and Liabilities under certain, very restrictive circumstances through 'linked presentation'. As part of the issue of recognition the standard defines the 'quasi-subsidiary', once again through the principle of economic substance, and requires that it should be consolidated in the institution's consolidated Financial Statements.

Detailed guidance on accounting for certain 'off-balance sheet' financing arrangements is provided by the standard through a series of application notes. Of particular interest to institutions may be: 88

'B - Sale and repurchase agreements';
'D – Securitised Assets';
'F – Private Finance Initiatives and similar contracts'.

FRS 6: Acquisitions and Mergers

This FRS is relevant to all institutions. It sets out the circumstances in which the two methods of accounting for a business combination (acquisition accounting and merger accounting) are to be used. A business combination is the bringing together of separate entities into one economic entity as a result of one entity uniting with another or obtaining control over another entity's net Assets and operations. 89

The objective of the FRS is to ensure that merger accounting is used for only those business combinations that are not, in substance, the acquisition of one entity by another but the formation of a new reporting entity as a substantially equal partnership where no party is dominant. To this end the FRS sets out five criteria, of which the first three are relevant to institutions, that must be met for merger accounting to be used. When the relevant criteria are met, merger accounting should be used. If the relevant criteria are not met then acquisition accounting should be used. 90

FRS 7: Fair values in Acquisition accounting

This FRS is relevant to all institutions. It sets out the principles of accounting for a business combination under the acquisition method of accounting. It sets out how the fair values of identifiable Assets and Liabilities should be determined and what 'identifiable Assets and Liabilities' means. 91

The objective of the FRS is to ensure that, when a business entity is acquired by another, all the Assets and Liabilities of the acquired entity at the date of acquisition are recorded at fair values reflecting their condition. 92

All changes to the acquired Assets and Liabilities, and the resulting gains and losses, that arise after control of the acquired entity has passed to the acquirer are reported as part of the post acquisition financial performance of the group. 93

FRS 8: Related Party Disclosures

94 This FRS is relevant to all institutions. The objective of FRS 8 is to ensure the disclosure of the existence of related parties and the extent and nature of transactions with them. The standard seeks disclosure not regulation of these transactions.

95 Disclosure is required if the transactions are material (to either party). The FRS provides a definition of Materiality i.e. "transactions are material when their disclosure might reasonably be expected to influence decisions made by the users of general purpose Financial Statements". Although the standard excludes disclosure of transactions with government departments and their sponsored bodies, the SORP requires disclosure of Funding Council grants. Transactions between Group entities that are eliminated on consolidation do not require disclosure in either the Group or parent's Financial Statements.

96 Related parties, for institutions, are most likely to be found amongst:

(a) those members of the governing body (and their 'close family') who hold influential posts in local public and private sector organisations with which the institution has transactions;
(b) senior staff, including those who hold influential posts on other bodies with which the institution has transactions, e.g. an NHS healthcare trust;
(c) associate and Joint Venture companies of the institution.

97 The disclosure of related party transactions should be through a note, and should include names, relationship, description of transactions, amounts involved, year-end balances and any amounts written off during the period.

FRS 9: Associates and Joint Ventures

98 This FRS is relevant to all institutions. It applies to arrangements that fall between full Subsidiary Undertakings and investments.

99 An Associate is an entity in which an institution holds a participating interest, without a view to reselling that investment, and exerts significant influence over its financial and operating policies. Associate undertakings should be consolidated using the equity accounting method.

A Joint Venture is a contractual arrangement between two or more parties to 100
undertake common objectives. Joint Ventures can take the form of a separate business entity or a contractual arrangement that does not constitute an entity. Joint Ventures that constitute separate businesses and are considered entities should be consolidated using the gross equity accounting method. A joint arrangement that does not constitute an entity could exist where institutions establish arrangements for a common purpose, such as sharing costs or undertaking building projects. In such cases, the arrangements would be brought into the institution's own accounts on a proportional basis.

FRS 10: Goodwill and Intangible Assets

This FRS may be relevant to all institutions. Goodwill is the difference between the 101
cost of the business or institution that is acquired and the fair value of the net Assets of that entity. Goodwill must be capitalised and amortised over a period normally no longer than 20 years. Impairment tests must be carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment.

Negative goodwill up to the fair values of the non-monetary Assets acquired should
be recognised in the income and expenditure account in the periods in which the 102
non-monetary Assets are recovered, whether through depreciation or sale. Any negative goodwill in excess of the fair values of the non-monetary Assets acquired should be recognised in the income and expenditure account in the periods expected to be benefited.

A purchased intangible Asset should be capitalised at cost. An intangible Asset 103
acquired as part of a business combination should be capitalised separately if its value can be measured reliably. An internally developed intangible Asset may only be capitalised if it has a readily ascertainable market value.

FRS 11: Impairment of Fixed Assets and Goodwill

This FRS is relevant to all institutions. Impairment arises when the higher of net 104
recoverable value or value in use of an Asset is below its carrying value.

Central to the concept is agreeing what constitutes an 'income generating unit' which 105
suffers the impairment. This maybe an individual Asset, a department, school, faculty, cost centre or even the entire institution.

106 Institutions will need to establish appropriate indicators of impairment and, if there are such indications, appropriate reviews or tests of impairment. These reviews will determine whether there is an impairment and quantify the financial impact for the Financial Statements. Indications of impairment include: operating losses, physical damage, obsolescence or an adverse change in the business, regulatory or statutory environment.

107 The standard requires the cost of impairments be charged on an Asset by Asset basis, in the first instance, against a revaluation surplus that relates to that particular Asset and then, to the extent that this does not cover the cost of the impairment, to the income and expenditure account. The standard does not discriminate between temporary or permanent impairment. Temporary diminutions in carrying values must be accounted for in the same way as permanent diminutions.

FRS 12: Provisions, Contingent Liabilities and Contingent Assets

108 This FRS is relevant to all institutions. Its aim is to ensure that appropriate recognition criteria and measurement bases are applied to Provisions, Contingent Liabilities and Contingent Assets and that sufficient information is disclosed in the notes to the Financial Statements to enable users to understand their nature, timing and amount.

109 A Provision is defined as a liability of uncertain timing or amount, which has to meet the following three criteria:

(a) a present obligation resulting from a past event;
(b) a probable outflow of economic benefits;
(c) a reliable estimate can be made of the amount of the obligation.

110 The existence of a contractual or legal obligation to pay for goods or services to be supplied at a future date does not necessarily justify a Provision. It may require disclosure as a capital commitment or, if the contract is onerous, as a Contingent Liability.

111 Provisions for restructuring should only be recognised when the institution is demonstrably committed to that restructuring and when as a result of this commitment there is valid expectation that there will be a transfer of economic benefits.

The amount recognised as a Provision should be the best estimate of the expenditure required to settle the obligation at the balance sheet date. The amount recognised as a Provision should be discounted to present value where the time value of money is material. The discount rate used should reflect current market assessments of the time value of money and reflect any risks specific to the liability. The best estimate should be determined by the judgement of the institution's management and should take account of: 112

(a) past experience of similar transactions;
(b) opinions of independent experts (where appropriate);
(c) uncertainties caused by weighting all possible outcomes (i.e. 'expected value');
(d) appropriate Accounting Policies as outlined in FRS 18.

A Contingent Liability, which is not recognised but is disclosed by way of a note, arises when the definition of a Provision is not met and includes three scenarios: 113

(a) a possible rather than a present obligation;
(b) a possible rather than a probable outflow of economic benefits;
(c) an inability to measure the economic outflow.

Similarly, a Contingent Asset, which is not recognised but is disclosed by way of a note, is defined as a possible, rather than present, Asset arising from a past event. Contingent Assets should be assessed continually to ensure they are treated appropriately in the Financial Statements. If in any period it becomes virtually certain that an inflow of economic benefits will occur then the Asset and its associated profit should be recognised in that accounting period. It is important that any disclosure avoids giving misleading indications of the likelihood of a profit arising. 114

It should be noted that there are no grounds for recognising a Provision for future repairs and maintenance. This is because these costs relate to the future operation of an institution, rather than to a past event. As such they should either be capitalised as Assets or written off as operating expenses when incurred, as appropriate. 115

FRS 13: Derivatives and other Financial Instruments

This FRS is likely to be relevant to a minority of institutions since it only applies to those which issue listed or publicly traded financial instruments. 116

117 Where it applies, it is concerned solely with disclosures. The objective of these disclosures is to provide information about the impact of financial instruments on the institution's risk profile, how the risks arising from financial instruments might affect the institution's performance and financial condition, and how these risks are being managed. Narrative disclosures may be included either in the Financial Statements or in the treasurer's report (or institutional equivalent). Some numerical disclosures are required in the notes to the Accounts. Institutions to which FRS 13 applies are referred to in the worked examples in Appendix III of the FRS.

FRS 14: Earnings per Share

118 This FRS is not likely to be relevant to institutions as it applies to listed companies and to companies whose securities are traded on other markets such as AIM.

FRS 15: Tangible Fixed Assets

119 This FRS is relevant to all institutions. The objectives of FRS 15 are to ensure that:

(a) consistent principles are applied to the initial measurement of Tangible Fixed Assets;
(b) where an entity chooses to revalue particular classes of Tangible Fixed Assets the valuation is performed on a consistent basis for each class and kept up-to-date and gains and losses on revaluation are recognised on a consistent basis;
(c) depreciation of Tangible Fixed Assets is calculated in a consistent manner and recognised as the economic benefits are consumed over the Assets' useful economic lives;
(d) sufficient information is disclosed in the Financial Statements to enable users to understand the impact of the institution's Accounting Policies regarding initial measurement, valuation and depreciation of Tangible Fixed Assets on the financial position and performance of the institution.

120 The scope of the FRS is that it applies to all Financial Statements that are intended to give a true and fair view of a reporting entity's financial position and income and expenditure for the period. Its requirements apply to all Tangible Fixed Assets, with the exception of investment properties as defined in SSAP 19 'Accounting for investment properties'.

FRS 16: Current Tax

This FRS is relevant to all institutions. Most institutions have charitable status and therefore have an exemption from corporation tax. Where there is a significant element of non-charitable activity, corporation tax may become payable, although in most cases institutions will take action to ensure that the tax charge is offset and therefore not payable. Therefore the accounting for current taxation under the standard is unlikely to be widely applicable. Where current taxation is payable, institutions should apply the standard in full. 121

The standard defines current tax as "the amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous accounting periods". In accounting for current tax, the standard requires that current tax be recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is or has been recognised in the statement of total recognised gains and losses, in which case the tax should be recognised there. The standard also deals with tax on dividends by stating that dividends (incoming and outgoing) should be recognised at an amount that includes any withholding tax, but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient. 122

FRS 17: Retirement benefits

This FRS is relevant to all institutions. The nature of pension arrangements varies between institutions and between different categories of staff within institutions. The following types of scheme are the most prevalent across the sector: notionally funded national schemes; funded national schemes where Assets and Liabilities cannot be ascribed to particular employer institutions; local government funded schemes; individual employer specific schemes. The transitional arrangements set out in the FRS should be followed prior to the implementation of that FRS. 123

FRS 18: Accounting Policies

124 This FRS is relevant to all institutions and should be applied in full. Institutions need to take particular notice of the standard's requirements, as set out in paragraph 58 of the FRS, regarding Financial Statements that fall within the scope of the SORP. This SORP recommends particular accounting treatments with the aim of narrowing areas of difference between institutions and promoting comparability between Financial Statements. The comparability is further enhanced if users are made aware of the extent of the institution's compliance with the SORP. Therefore FRS 18 requires that an institution's Financial Statements should state whether they have been prepared in accordance with the provisions of the SORP. In the event of departure, the effect of and reasons for such departure should be disclosed.

125 Accounting Policies should be consistent with relevant accounting standards, UITF Abstracts and this SORP, and where these permit choice, the most appropriate for giving a true and fair view should be selected. In making this selection, the institution should judge the most appropriate against the objectives of relevance, reliability, comparability and understandability. An institution should review its Accounting Policies regularly to ensure that they remain the most appropriate to its own particular circumstances. Where this is judged not to be the case, a new policy should be adopted. The standard requires certain disclosures about the policies followed and any changes to those policies. It also requires disclosures regarding certain accounting estimates used in applying the Accounting Policies.

FRS 19: Deferred Tax

126 This FRS is unlikely to be widely applicable to institutions, except where they operate subsidiary companies which have not taken steps to offset their tax liability. In those circumstances, the standard should be applied in full.

Urgent Issues Task Force Abstracts

127 The following may be of relevance:

UITF Abstract 4: Presentation of long-term debtors in current Assets
UITF Abstract 5: Transfers from current Assets to fixed Assets
UITF Abstract 6: Accounting for post-retirement benefits other than pensions
UITF Abstract 24: Accounting for start-up costs
UITF Abstract 28: Operating lease incentives
UITF Abstract 29: Website development costs.

UITF Abstract 4: Presentation of long-term debtors in current Assets

In most cases it will be satisfactory to disclose the size of debtors due after more than one year in the notes to the Accounts. Although normally unlikely to apply to institutions, there may be some instances where the amount is so material in the context of net current Assets that in the absence of disclosure of debtors due after more than one year on the face of the balance sheet readers may misinterpret the Financial Statements. In such circumstances the amount should be disclosed on the face of the balance sheet within current Assets. 128

UITF Abstract 5: Transfers from current Assets to fixed Assets

Where Assets are transferred from current to fixed, the current Asset accounting rules should be applied up to the effective date of transfer, which is the date of management's change of intent. Consequently the transfer should be made at the lower of cost and net realisable value, and accordingly an assessment should be made of the net realisable value at the date of transfer and if this is less than its previous carrying value the diminution should be charged in the income and expenditure account to reflect the loss to the institution while the Asset was held as a current Asset. Whether Assets are transferred at cost or at net realisable value, fixed Asset accounting rules will apply to the Assets subsequent to the date of transfer, including the disclosure requirements relating to valuations (where appropriate). 129

UITF Abstract 6: Accounting for post-retirement benefits other than pensions

Although normally unlikely either to apply or to be material to institutions, post-retirement benefits other than pensions are Liabilities, which should be recognised in the Financial Statements. Such benefits share many of the characteristics of pensions and the principles of SSAP 24, and ultimately FRS 17, are applicable to their measurement and disclosure. 130

UITF Abstract 24: Accounting for start-up costs

Start-up costs should be accounted for on a basis consistent with the accounting treatment of similar costs incurred as part of the institution's ongoing activities. If there are no such similar costs, start-up costs that do not meet the criteria for recognition as Assets under a relevant accounting standard, such as FRS 15 'Tangible Fixed Assets', should be recognised as an expense when they are incurred: they should not be carried forward as an Asset. Where start-up costs meet the definition of exceptional items in FRS 3 'Reporting Financial Performance', they should be disclosed in accordance with that standard. 131

UITF Abstract 28: Operating lease incentives

132 This abstract, if relevant, will apply to all institutions. All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net payment agreed for the use of the leased Asset, irrespective of the incentive's nature or form or the timing of the payments.

UITF Abstract 29: Website development costs

133 This abstract will apply to all institutions. All planning, maintenance and operating costs should be charged to the income and expenditure account as incurred. Although the abstract allows design and content costs to be capitalised it is unlikely that institutions will normally pass the test that the primary purpose of the website is to provide a means of delivery of the teaching and research services offered by the institution in fulfilment of its principal objectives.

Other UITF Abstracts

134 Other UITF Abstracts are either not relevant to institutions in the sector or are felt unlikely to become relevant. However, if an abstract does become relevant to an individual institution then the requirements of that abstract should be followed. Similarly, all UITF Abstracts published after the date this SORP went to press should be followed by all institutions if they are relevant.

Financial reporting standard for smaller entities

135 Institutions should not adopt the current version of the Financial Reporting Standard for Smaller Entities.

Notes

1 In the past a similar effect was achieved through the use of a long-term maintenance provision; FRS 12 prohibited that practice because the provision did not represent a liability to an external party.

2 This situation relates only to higher education institutions that obtained independent status from local authority control in 1989.

Appendix

Membership of the HE/FE Board for the SORP as at 1 July 2003

Professor John Bull	Chairman
Ian Lewis	Head of Finance, Higher Education Funding Council for England
Andrew Clark	Head of Finance, National Council for Education and Training for Wales/Higher Education Funding Council for Wales
Andrew Millar	Senior Financial Analyst, Scottish Higher Education Funding Council
Jeff Glass	Accountant, Department for Employment and Learning Northern Ireland
Philip Lloyd	Director of Finance, Learning and Skills Council
Michael Yuille	Director of Finance, Glasgow University
Frank Morgan	Director, Bath Spa University College
John Brennan	Director of FE Development, Association of Colleges
Ian Looker	Director, PricewaterhouseCoopers
Miles Hedges	Director of Finance, The Open University (in attendance)
Karel Thomas	BUFDG Executive Officer (in attendance)
Jenny Carter	Accounting Standards Board (in attendance)
Steve Philips	Policy Adviser, SCOP (in attendance)
Sue Boorman	Policy Adviser, UUK (secretariat)
Clare Taylor	Policy Officer, UUK (secretariat)

Membership of the SORP Technical Advisory Committee

Miles Hedges	Director of Finance, The Open University
John Sandbach	Director of Finance, University of Liverpool
Andrew Haslehurst	Financial Accountant, Southampton Institute
Andrew Haddon	Head of Finance, Borders College
Jo Whiting	Finance Director, Isle of Wight College

Casterbridge College

Model financial statements for the year ended 31 July 2003

In accordance with paragraph 41 of the SORP, the income and expenditure account, balance sheet, cash flow statement and statement of total recognised gains and losses must follow the formats set out in this appendix.

In accordance with paragraph 42 of the SORP, the notes to the accounts should contain analyses of income and expenditure and balance sheet items consistent with best accounting practice and should be sufficiently detailed to enable users to obtain a clear understanding of how the institution is performing financially.

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* *These pages have not been reproduced in these specimen financial statements.*

** *This is a requirement for further education colleges only and is not reproduced in these specimen financial statements.*

Statements noted in bold above have mandatory formats specified by the SORP.

Consolidated Income and Expenditure Account for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Income			
Funding council grants	2	33,996	36,921
Tuition fees and education contracts	3	3,609	4,944
Research grants and contracts	4	228	303
Other income	5	2,550	1,875
Endowment and investment income	6	2,003	1,437
Total income		**42,386**	**45,480**
Expenditure			
Staff costs	7	24,327	28,542
Exceptional restructuring costs	7	1,551	0
Other operating expenses	9	12,750	13,557
Depreciation	13	4,038	2,802
Interest payable	10	108	0
Total expenditure		**42,774**	**44,901**
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before tax		(388)	579
Loss on disposal of assets	13	(9,420)	0
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets but before tax		(9,808)	579
Taxation	11	(12)	(12)
(Deficit)/surplus on continuing operations after depreciation of assets at valuation, disposal of assets and tax	**12**	**(9,820)**	**567**
Transfer from accumulated income within specific endowments		50	0
(Deficit)/surplus for the year retained within general reserves		**(9,770)**	**567**

The income and expenditure account is in respect of continuing activities.

There were no operations that were acquired or discontinued by Casterbridge College during the year. Where appropriate, under paragraph 14 of FRS3, the aggregate results of continuing operations, acquisitions (as a component of continuing operations) and discontinued operations should be disclosed separately. The format of the consolidated Income and Expenditure Account under this SORP lends itself more readily to disclosure of the information required by paragraph 14 of FRS3 through the adoption of the general layout of illustrative example 2 included in the text of FRS3. Paragraph 30 of FRS3 requires the comparative figures to include in the continuing category only the results of those operations included in the current period's continuing operations: the necessary details can be given by way of note, as set out in the illustrative examples included in FRS3.

Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit)/surplus on continuing operations before taxation		(9,808)	579
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	23	1,416	1,431
Realisation of property revaluation gains of previous years	23	16,920	0
Historical cost surplus for the period before taxation		**8,528**	**2,010**
Historical cost surplus for the period after taxation		**8,516**	**1,998**

Statement of the Total Recognised Gains and Losses for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		(9,820)	567
Unrealised surplus on revaluation of fixed assets	13	5,100	0
Appreciation of endowment asset investments	22	2,200	0
New endowments	22	100	0
Total recognised gains relating to the period		**(2,420)**	**567**
Reconciliation			
Opening reserves and endowments		92,679	92,112
Total recognised (losses)/gains for the year		(2,420)	567
Closing reserves and endowments		**90,259**	**92,679**

Balance Sheets as at 31 July

	Notes	Group 2003 £000	College 2003 £000	Group 2002 £000	College 2002 £000
Tangible assets	13	74,751	74,337	73,974	73,584
Investments	14	0	6	0	6
Total fixed assets		**74,751**	**74,343**	**73,974**	**73,590**
Endowment assets	**15**	**26,850**	**26,850**	**24,600**	**24,600**
Stock		129	114	129	108
Debtors	16	1,170	1,116	1,290	1,317
Investments		6,000	6,000	7,500	7,500
Cash at bank and in hand		2,512	2,512	585	585
Total current assets		9,811	9,742	9,504	9,510
Less: Creditors - amounts falling due within one year	17	4,344	3,972	3,951	3,648
Net current assets		**5,467**	**5,770**	**5,553**	**5,862**
Total assets less current liabilities		**107,068**	**106,963**	**104,127**	**104,052**
Less: Creditors - amounts falling due after more than one year	18	4,401	4,401	162	162
Less: Provisions for liabilities and charges	20	3,498	3,498	2,124	2,124
NET ASSETS		**99,169**	**99,064**	**101,841**	**101,766**
Deferred capital grants	21	8,910	8,910	9,162	9,162
Specific endowments	22	18,750	18,750	17,100	17,100
General endowments	22	8,100	8,100	7,500	7,500
Total endowments		26,850	26,850	24,600	24,600
Revaluation reserve	23	46,050	46,050	59,286	59,286
General reserve	24	17,359	17,254	8,793	8,718
Total reserves		63,409	63,304	68,079	68,004
TOTAL		**99,169**	**99,064**	**101,841**	**101,766**

The financial statements on pages 16 to 46 were approved by the governing body on [insert date] and were signed on its behalf by:

J Smith - Chairman R Cratchit - Director of Finance T Ross - Principal

(In English further education institutions the Director of Finance is not required to sign the balance sheet)

Consolidated Cash Flow Statement for the year ended 31 July 2003

	Notes	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Cash flow from operating activities	25	1,461	774
Returns on investments and servicing of finance	26	1,895	1,437
Taxation	11	(12)	(12)
Capital expenditure and financial investment	27	(7,731)	(6,363)
Management of liquid resources	28	1,850	0
Financing	29	4,464	(36)
Increase/(decrease) in cash in the period	**30**	**1,927**	**(4,200)**

Reconciliation of net cash flow to movement in net funds/(debt)

Increase/(decrease) in cash in the period		1,927	(4,200)
Cash inflow from new secured loan	29	(4,500)	0
Cash inflow from liquid resources	28	(1,850)	0
Change in net debt resulting from cash flows	29	36	45
Movement in net funds in period		(4,387)	(4,155)
Net funds at 1 August		10,587	14,742
Net funds at 31 July		**6,200**	**10,587**

Notes to the Accounts

1 Principal Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2003 and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the College and its subsidiaries, ABC Limited and XYZ Limited. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS 2, the activities of the student union have not been consolidated because the college does not control those activities. All financial statements are made up to 31 July 2003.

Recognition of income

Income from tuition fees is recognised in the period for which it is received and includes all fees chargeable to students or their sponsors, e.g. National Health Service. The costs of any fees waived by the College are included as expenditure in Note 9.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Income receivable from the Funding Council is recognised in line with the latest estimates of grant receivable for an academic year. The final grant allocation is determined in the subsequent February, following an audit of the College's activity.

Pension schemes

Retirement benefits to employees of the College are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS). Contributions to the schemes are charged to the income and expenditure account, so as to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll.

The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the LGPS and quinquennial valuations using a prospective benefit method for the TPS.

Notes to the Accounts (continued)

1 Principal Accounting Policies - continued

Tangible fixed assets

Land and buildings

Land and buildings inherited from the Local Education Authority (LEA) and buildings acquired since incorporation are stated in the balance sheet at valuation on the basis of depreciated replacement cost, as the open market value for existing use is not readily obtainable. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of between 20 and 50 years. The College has a policy of depreciating major adaptations to buildings over the period of their useful economic life of between 20 and 50 years.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account, and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings, which were revalued in 1996, but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Equipment

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

All assets are depreciated over their useful economic life as follows:

Motor vehicles and general equipment - three years;
Computer equipment - three years;
Furniture and fittings - five years.

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Notes to the Accounts (continued)

1 Principal Accounting Policies - continued

Investments

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Maintenance of premises

The cost of routine corrective maintenance is charged to the income and expenditure account in the period that it is incurred.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year, with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Taxation

The College is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA 1988). Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College receives no similar exemption in respect of Value Added Tax.

Liquid resources

Liquid resources comprise government securities and short-term deposits with recognised banks and building societies.

Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Notes to the Accounts (continued)

2 Funding Council Grants

	Funding body £000	Funding body £000	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Recurrent grant	21,835	8,800	30,635	35,735
Work Based Learning	287	0	287	253
Releases of deferred capital grants	1,881	0	1,881	461
Individual learning accounts	178	0	178	0
Local Initiative Funds	248	0	248	0
Rationalisation funds	0	0	0	170
ESF co-financing	300	0	300	0
HE development grant	0	137	137	0
Other specific grants	330	0	330	302
	25,059	**8,937**	**33,996**	**36,921**

This note should provide sufficient information to allow the reader to understand the major types of grant receive from each funding body. Different funding councils may required different degrees of analysis.

3 Tuition Fees and Education Contracts

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
UK higher education students	1,530	1,500
European Union (EU) (excluding UK) students	132	138
Non-EU students	96	81
UK further education students	657	717
	2,415	2,436
Higher education contracts	407	924
Other contracts	787	1,584
	3,609	**4,944**

This note should provide sufficient information to allow the reader to understand the major sources of fee income upon which the institution is dependent. The above detail is likely to be the minimum necessary but institutions may provide greater detail if they wish.
(Education contracts should be analysed in accordance with relevant funding council guidance.)

Notes to the Accounts (continued)

4 Research Grants and Contracts

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Research Council	15	12
UK based charities	0	0
European Commission	156	240
Other grants and contracts	57	51
Total	**228**	**303**

This note should provide sufficient information to allow the reader to understand the major sources of research project income upon which the institution is dependent. The above detail is likely to be the minimum necessary for institutions with significant income from this source but may be excessive for small institutions having relatively little income of this type. It will be up to individual institutions to determine the level of disclosure that is appropriate to their particular circumstances.

5 Other Income

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Residencies, catering and conferences	717	594
Other income generating activities	171	96
Other grant income	600	500
Releases from deferred capital grants (non-funding council)	81	78
Other income	981	607
	2,550	**1,875**

6 Endowment and Investment Income

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Income from specific endowment asset endowments (note 22)	500	700
Income from general endowment asset investments (note 22)	300	220
Other investment income	50	70
Other interest receivable	1,153	447
	2,003	**1,437**

Notes to the Accounts (continued)

7 Staff Costs

	Year ended 31 July 2003	Year ended 31 July 2002
The average monthly number of persons (including senior post-holders) employed by the College during the year, expressed as full-time equivalents, was:		
	Number	Number
Teaching departments*	852	1,029
Teaching support services	39	36
Other support services	54	48
Administration and central services	207	186
Premises	60	45
Other	15	9
	1,227	**1,353**

Staff costs for the above persons	**Year ended 31 July 2003 £000**	**Year ended 31 July 2002 £000**
Wages and salaries	21,729	25,116
Social security costs	1,431	1,773
Other pension costs	1,167	1,653
Exceptional restructuring costs	1,551	0
	25,878	**28,542**

The following analysis may be combined with a similar objective analysis of other operating expenses in a separate note (see note 9).

Teaching departments*	17,181	21,300
Teaching support services	522	456
Other support services	957	861
Administration and central services	4,767	4,599
Premises	675	495
Other income-generating activities	69	0
Catering and residences	156	144
Staff restructuring	0	687
Sub total	24,327	28,542
Exceptional restructuring costs	1,551	0
Total	**25,878**	**28,542**

* For further education colleges in England and Wales this line should be analysed over: Teaching staff and Other staff

Notes to the Accounts (continued)

7 Staff Costs - continued

(The next analysis is required only for further education institutions in England, but not currently in Northern Ireland, Scotland and Wales.)

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Employment costs for staff on permanent contracts	19,317	22,236
Employment costs for staff on short-term and temporary contracts	5,010	5,619
Restructuring costs	1,551	687
	25,878	**28,542**

The restructuring costs were approved by the institution's remuneration committee.

(In the following disclosure the term 'senior post-holder' refers only to further education institutions. The value of the bands requiring disclosure will vary according to the disclosure requirements of the funding body having prime responsibility for monitoring the finances of the institution.)

The number of staff, including senior post-holders and the principal, who received emoluments in the following ranges was:

	Year ended 31 July 2003		Year ended 31 July 2002	
	Number senior post-holders	Number other Staff	Number senior post-holders	Number other Staff
£ 50,001 to £ 60,000	-	6	1	6
£ 70,001 to £ 80,000	2	-	1	-
£ 80,001 to £ 90,000	1	-	1	-
	3	6	3	6

(For higher education institutions the threshold for disclosing salary bands is now £70,000)

A general pay award of 3% was made with effect from 1 August 2002, approved by the corporation.
(Further education institutions only are required to disclose details of pay awards affecting all significant staff groups.)

Notes to the Accounts (continued)

8 Senior Post-holders' Emoluments

(In this note the term 'senior post-holder' refers only to further education institutions. In all other institutions disclosure is required by the relevant funding body in respect of the vice-chancellor, principal, chief executive or equivalent.)

Senior post-holders are defined as the principal (or chief executive) and holders of the other senior posts whom the board have selected for the purposes of the articles of government of the institution relating to the appointment and promotion of staff who are appointed by the board of governors.

	Number 2003	Number 2002
The number of senior post-holders including the principal was:	3	3

Senior post-holders' emoluments are made up as follows:

	£	£
Salaries	187,269	178,292
Benefits in kind	8,527	8,027
Pension contributions	20,718	18,829
Total emoluments	**216,514**	**205,148**

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	Year ended 31 July 2003 £	Year ended 31 July 2002 £
Salary	74,280	70,678
Benefits in kind	4,500	4,280
	78,780	74,958
Pension contributions	5,349	5,080

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Teachers Superannuation Scheme and are paid at the same rate as for other employees.

Compensation for loss of office paid to a former senior post-holder/higher paid employee

	Year ended 31 July 2003 £	Year ended 31 July 2002 £
Compensation paid to the former post-holder	8,572	0
Estimated value of other benefits, including provisions for pension benefits	2,829	0

The estimated value of other benefits has been calculated in accordance with Statement of Standard Accounting Practice 24. The severance payment was approved by the college's remuneration committee.

(The following disclosure is required only for further education institutions.)

The members of the corporation other than the principal and the staff member did not receive any payment from the institution other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

(Further education institutions are required to disclose details of pay awards affecting senior post-holders.)

Senior post-holders, including the Principal and other higher paid staff received a pay increase of 3% in line with the general pay award. No bonuses or other salary enhancements were awarded to senior post-holders or other higher paid staff.

Notes to the Accounts (continued)

8 Senior Post-holders' Emoluments - continued

(The following disclosure is required for further education institutions only. The format may be directed by the funding body having prime responsibility for monitoring the finances of the college.)

Overseas activities

The following costs were incurred by members and senior post-holders during 2002-2003 in respect of overseas activities which were carried out in accordance with the strategy approved by the governing body:

	Total cost £	Contributions received £	Net costs to College £
Members	0	0	0
Senior post-holders	10,500	0	10,500
Other higher paid staff	15,000	12,000	3,000
	25,500	**12,000**	**13,500**

9 Other Operating Expenses

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000

The following objective analysis may be replaced by a subjective analysis, in which case this objective analysis could be shown in a separate note along with a similar analysis of staff costs. (For higher education institutions this would result in a summarised version of the analysis required by the HESA Finance Statistics Return.)

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Teaching departments	2,520	2,586
Contracted-out lecturing services	1,332	0
Teaching support services	273	306
Other support services	576	612
Administration and central services	2,664	2,373
General education	156	123
Premises costs*	687	645
Planned maintenance	1,200	3,327
Other income generating activities	99	87
Catering and residence operations	525	411
Franchised provision	1,140	600
Other expenses	1,578	2,487
Total	**12,750**	**13,557**

Other operating expenses include:	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Auditors' remuneration:		
external audit**	39	36
internal audit***	30	30
other services from either external or internal audit	12	12
Losses on disposal of tangible fixed assets (where not material)	6	-
Hire of plant and machinery - operating leases	15	15
Hire of other assets - operating leases	3	3

* For FE institutions in England and Wales this should be analysed over: Running costs, Maintenance and Rents and Leases

** Includes £32,250 in respect of the College (2001/02 £30,000)

*** Includes £24,000 in respect of the College (2001/02 £24,000)

Notes to the Accounts (continued)

10 Interest Payable

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments		
Repayable within 5 years, by instalments		
Repayable wholly or partly in more than 5 years	78	
	78	0
On finance leases	30	
Total	**108**	**0**

11 Taxation

	Year ended 31 July 2003 £000	**Year ended 31 July 2002 £000**
United Kingdom corporation tax at 20%	12	12
Provision for deferred corporation tax in the accounts of the subsidiary company	0	0
Total	**12**	**12**

12 (Deficit)/Surplus on Continuing Operations for the Period

The (deficit)/surplus on continuing operations for the period is made up as follows:

	Year ended 31 July 2003 £000	**Year ended 31 July 2002 £000**
College's (deficit)/surplus for the period	(9,850)	537
Surplus generated by subsidiary undertakings and transferred to the college under gift aid	30	30
Total	**(9,820)**	**567**

Notes to the Accounts (continued)

13 Tangible Fixed Assets (Group)

	Land and Buildings Freehold	Long Leasehold	Equipment	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 August 2002	75,117	150	10,587	85,854
Additions	12,981	0	3,672	16,653
Surplus on revaluation	4,500	0	0	4,500
Disposals	(18,000)	0	(81)	(18,081)
At 31 July 2003	**74,598**	**150**	**14,178**	**88,926**
Depreciation				
At 1 August 2002	4,311	6	7,563	11,880
Charge for year	1,287	3	2,748	4,038
Revaluation	(600)	0	0	(600)
Eliminated in respect of disposals	(1,080)	0	(63)	(1,143)
At 31 July 2003	**3,918**	**9**	**10,248**	**14,175**
Net book value at 31 July 2003	**70,680**	**141**	**3,930**	**74,751**
Net book value at 1 August 2002	**70,806**	**144**	**3,024**	**73,974**
Inherited	44,817	0	633	45,450
Financed by capital grant	6,876	0	2,034	8,910
Other	18,987	141	1,263	20,391
Net book value at 31 July 2003	**70,680**	**141**	**3,930**	**74,751**

Notes to the Accounts (continued)

13 Tangible Fixed Assets (College only)

	Land and Buildings Freehold	Land and Buildings Long Leasehold	Equipment	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 August 2002	75,117		10,251	85,368
Additions	12,981		3,603	16,584
Surplus on revaluation	4,500		0	4,500
Disposals	(18,000)		(81)	(18,081)
At 31 July 2003	**74,598**	**0**	**13,773**	**88,371**
Depreciation				
At 1 August 2002	4,311		7,473	11,784
Charge for year	1,287		2,706	3,993
Revaluation	(600)		0	(600)
Eliminated in respect of disposals	(1,080)		(63)	(1,143)
At 31 July 2003	**3,918**	**0**	**10,116**	**14,034**
Net book value at 31 July 2003	**70,680**	**0**	**3,657**	**74,337**
Net book value at 1 August 2002	**70,806**	**0**	**2,778**	**73,584**
Inherited	44,817		633	45,450
Financed by capital grant	6,876		2,034	8,910
Other	18,987		990	19,977
Net book value at 31 July 2003	**70,680**	**0**	**3,657**	**74,337**

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS15. Accordingly, the book values at implementation have been retained.

Land and buildings were valued in 1996 at depreciated replacement cost by a firm of independent chartered surveyors. Other tangible fixed assets inherited from the LEA at incorporation have been valued by the College on a depreciated replacement cost basis with the assistance of independent professional advice.

The college disposed of its Church Street annexe and reinvested £7,500,000 of the proceeds in a new building on the main site. The Church Street annexe was revalued prior to disposal by a firm of independent chartered surveyors on an open market valuation basis. A loss of £9,420,000 arose from the disposal, which was due largely to the announcement in December 2002 by the local council of the plans for a new by-pass to pass close to these premises.

Land and buildings with a net book value of £6,876,000 have been financed by exchequer funds. Should these assets be sold, the College may be required, under the terms of the Finance Memorandum with the Council, to surrender the proceeds.

Fixed assets include land and buildings with a net book value of £12,369,000, which will be partially funded by a grant from the Council. It is anticipated that the Council will provide £6,183,000 over 15 years. The receipt in the current year (third year of arrangement) was £778,629. The Council does not have the power to guarantee future funding streams to institutions and cannot guarantee that this funding will continue after the current year. Provision has not, therefore, been made for anticipated future receipts, which are treated as deferred capital grants on receipt.

Notes to the Accounts (continued)

13 Tangible Fixed Assets (College only) - continued

The net book value of tangible fixed assets includes an amount of £204,000 (2001/02 £216,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £12,000 (2001/02 £13,500)

The following illustration is given to demonstrate the required disclosure had the circumstances been applicable to Casterbridge College

If inherited land and buildings had not been valued they would have been included at the following amounts:

	£000
Cost	Nil
Aggregate depreciation based on cost	Nil
Net book value based on cost	Nil

This note should disclose the amount of finance charges capitalised and included in the cost of tangible fixed assets in the cases where institutions' accounting policies allow such treatment.

14 Investments

	College As at 31 July 2003 £000	College As at 31 July 2002 £000
Investments in subsidiary companies	6	6
Investments in associate companies	0	0
	6	**6**

The college owns 100% of the issued ordinary £1 shares of ABC Limited, a company incorporated in England and Wales, and 100% of the issued ordinary £1 shares of XYZ Limited, a company incorporated in England and Wales. The principal business activity of XYZ Limited is carrying out training of employees on behalf of employers. The principal activity of ABC Limited is the rental of property. The College also owns 10% of the issued ordinary capital shares of PQR Limited, the initial cost of which was £200.

Notes to the Accounts (continued)

15 Endowment Assets

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000
Balance at 1 August 2002	24,600	24,600
Additions (note 27)	5,100	5,100
Disposals (note 27)	(4,700)	(4,700)
Appreciation of endowment asset investments (note 22)	2,200	2,200
Decrease in cash balances held at fund managers	(350)	(350)
Balance at 31 July 2003	**26,850**	**26,850**
Represented by:		
Fixed interest stocks (listed)	2,600	2,600
Equities (listed)	15,200	15,200
Land and property	6,700	6,700
Cash balances (note 30)	2,350	2,350
Total	**26,850**	**26,850**

Land and property valuations as at 31 July 2003 have been made by senior management on the advice of firms of chartered surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

An analysis between listed and unlisted investments should be provided where relevant. The presentation of endowment asset investments in the balance sheet as a separate heading between fixed and current assets may require a true and fair override to depart from the statutory balance sheet formats if the institution is a limited company.

16 Debtors

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
Amounts falling due within one year:				
Trade debtors	1,089	486	1,197	567
Amounts owed by group undertakings:				
Subsidiary undertakings	0	510	0	637
Associate undertakings	0	63	0	50
Prepayments and accrued income	81	57	93	63
Total	**1,170**	**1,116**	**1,290**	**1,317**

Notes to the Accounts (continued)

17 Creditors: Amounts Falling Due Within One Year

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
Bank loans and overdrafts	225	225	0	0
Obligations under finance leases	36	36	36	36
Payments received in advance **	447	447	414	414
Trade creditors	1,578	1,164	1,425	1,080
Amounts owed to group undertakings:				
Subsidiary undertakings	0	87	0	102
Associate undertakings	0	0	0	0
Corporation tax	12	0	12	0
Other taxation and social security	753	753	687	687
Accruals	687	654	1,071	1,023
Other amounts owed to funding councils	606	606	306	306
	4,344	**3,972**	**3,951**	**3,648**

** Includes £90,000 (2002: £nil) capital grant received from the Funding Council in respect of rationalisation project.

18 Creditors: Amounts Falling Due After More Than One Year

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
Bank loans	4,275	4,275	0	0
Obligations under finance leases	126	126	162	162
Loans from subsidiary and associate companies	0	0	0	0
	4,401	**4,401**	**162**	**162**

Notes to the Accounts (continued)

19 Borrowings

(a) Bank Loans and Overdrafts

Bank loans and overdrafts are repayable as follows:

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
In one year or less	225	225	0	0
Between one and two years	225	225	0	0
Between two and five years	900	900	0	0
In five years or more	3,150	3,150	0	0
Total	**4,500**	**4,500**	**0**	**0**

Bank loans and overdrafts at 7.25% repayable by instalments falling due between 1 August 2003 and 31 July 2020 totalling £4,500,000 are secured on a portion of the freehold land and buildings of the College.

(b) Finance Leases

The net finance lease obligations to which the institution is committed are:

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
In one year or less	36	36	36	36
Between two and five years	126	126	162	162
In five years or more	0	0	0	0
Total	**162**	**162**	**198**	**198**

20 Provisions for Liabilities and Charges

	Group and College		
	Restructuring £000	Other £000	Total £000
At 1 August 2002	894	1,230	2,124
Expenditure in the period	(90)	(558)	(648)
Transferred from income and expenditure account	2,022	0	2,022
At 31 July 2003	2,826	672	3,498

This note shows combined figures for the Group and the College on the basis that all provisions relate solely to the College.

The restructuring provision relates to exceptional restructuring of costs arising from closing the Department of Media Studies which was announced in April 2003 and for which redundancy notices were served in June 2003. Other provisions relate to a legal obligation to carry out remedial pipework in the institution's leasehold building. This work will be completed during 2003/04.

Notes to the Accounts (continued)

21 Deferred Capital Grants

	Group and College		
	Funding Council	**Other grants**	**Total**
	£000	**£000**	**£000**
At 1 August 2002			
Land and buildings	7,446	0	7,446
Equipment	1,566	150	1,716
Cash received			
Land and buildings	1,317	0	1,317
Equipment	231	162	393
Released to income and expenditure account			
Land and buildings	1,476	0	1,476
Equipment	405	81	486
Total	**8,679**	**231**	**8,910**
At 31 July 2003			
Land and buildings	7,287	0	7,287
Equipment	1,392	231	1,623
Total	**8,679**	**231**	**8,910**

Cash received should be analysed in accordance with any guidance issued by the relevant funding body. For English further education institutions, it should be shown as follows:

Analysis of capital grants received from the Learning and Skills Council during 2002/03

	£000
IT infrastructure	164
Success for all (capital element)	67
Support for major works	1,317
Total	**1,548**

22 Endowments

	Group and College		
	Specific	General	Total
	£000	£000	£000
At 1 August 2002	17,100	7,500	24,600
Additions	100	0	100
Appreciation of endowment asset investments	1,600	600	2,200
Income for year	500	300	800
Expenditure for year	(550)	(300)	(850)
At 31 July 2003	**18,750**	**8,100**	**26,850**
Representing			
Fellowships and scholarships funds	3,200	0	3,200
Prizes funds	650	0	650
Chairs and lectureships funds	11,250	0	11,250
Other funds	3,650	8,100	11,750
Total	**18,750**	**8,100**	**26,850**

This note shows combined figures for the Group and the College because it is thought unlikely there will ever be endowments within a subsidiary. Where material, the aggregate accumulated unspent income held within specific endowments should be disclosed separately from the capital balances of specific endowments.

Notes to the Accounts (continued)

23 Revaluation Reserve

	Group As at 31 July 2003 £000	College As at 31 July 2003 £000	Group As at 31 July 2002 £000	College As at 31 July 2002 £000
At 1 August	**59,286**	**59,286**	**60,717**	**60,717**
Revaluations in the period (as per note 13)	5,100	5,100	0	0
Transfer from revaluation reserve to general reserve in respect of:				
Disposals	(16,920)	(16,920)	0	0
Depreciation on revalued assets	(1,416)	(1,416)	(1,431)	(1,431)
At 31 July	**46,050**	**46,050**	**59,286**	**59,286**

24 Movement on General Reserves

	Group Year ended 31 July 2003 £000	College Year ended 31 July 2003 £000	Group Year ended 31 July 2002 £000	College Year ended 31 July 2002 £000
Income and Expenditure Account Reserve				
At 1 August	8,793	8,718	6,795	6,750
(Deficit)/surplus retained for the year	(9,770)	(9,800)	567	537
Transfer from revaluation reserve	18,336	18,336	1,431	1,431
At 31 July	**17,359**	**17,254**	**8,793**	**8,718**

25 Reconciliation of Consolidated Operating Deficit to Net Cash Inflow from Operating Activities

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation	(9,808)	579
Depreciation (note 1 & 13)	4,038	2,802
Deferred capital grants released to income (note 2 & 5)	(1,962)	(1,860)
Loss/(profit) on disposal of tangible fixed assets	9,426	0
Interest payable (note 10)	108	0
(Increase)/decrease in stocks	0	0
(Increase)/decrease in debtors	120	93
Increase/(decrease) in creditors	168	234
Increase/(decrease) in provisions	1,374	363
Interest receivable (note 6)	(2,003)	(1,437)
Net cash inflow from operating activities	**1,461**	**774**

Notes to the Accounts (continued)

26 Returns on Investments and Servicing of Finance

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Income from endowments	800	0
Other interest received	1,203	1,437
Interest paid	(78)	0
Interest element of finance lease rental payment	(30)	0
Net cash inflow from returns on investment and servicing of finance	**1,895**	**1,437**

27 Capital Expenditure and Financial Investment

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Purchase of tangible fixed assets	(16,653)	(7,476)
Payments to acquire endowment assets	(5,100)	0
Sales of tangible fixed assets (see note 31)	7,512	0
Receipt from sale of endowment assets	4,700	0
Deferred capital grants received	1,710	1,113
Endowments received	100	0
Net cash inflow/(outflow) from capital expenditure and financial investment	**(7,731)**	**(6,363)**

28 Management of Liquid Resources

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Sale of investments	0	0
Withdrawals from deposits	1,500	0
Purchase of investments	0	0
Placing of deposits	0	0
Movement in endowment assets	350	0
Net cash inflow from management of liquid resources	**1,850**	**0**

29 Financing

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Debt due beyond a year:		
New unsecured loans repayable by 2020	4,500	0
Repayment of amounts borrowed	0	0
Capital element of finance lease rental payments	(36)	(36)
Net cash inflow/(outflow) from financing	**4,464**	**(36)**

Notes to the Accounts (continued)

30 Analysis of Changes in Net Funds

	At 1 August 2002 £000	Cashflows £000	Other changes £000	At 31 July 2003 £000
Cash in hand, and at bank	585	1,927	0	2,512
Endowment asset investments (note15)	2,700	(350)	0	2,350
Overdrafts	0	0	0	0
	3,285	1,577	0	4,862
Debt due within 1 year	0	(225)	0	(225)
Debt due after 1 year	0	(4,275)	0	(4,275)
Finance leases	(198)	36	0	(162)
Current asset investments	7,500	(1,500)	0	6,000
Total	**10,587**	**(4,387)**	**0**	**6,200**

The following text is required only for further education institutions in England, but not in Northern Ireland, Scotland and Wales:

£1.5 million of the current asset investments is derived from the sale of the Westwick site and held for reinvestment in the main College site.

31 Cash Flow Relating to Exceptional Items

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Provision as at 1 August	0	0
Income and expenditure account charge	1,551	0
Operating cash outflow	0	0
Provision as at 31 July	**1,551**	**0**

The operating cash outflows do not include an outflow of £1,551,000 for exceptional restructuring costs as the amount provided was not paid until the following financial year (see also note 7).

Receipts from the sale of tangible fixed assets include £7,500,000 from the sale of the Church Street Annex (see Note 13).

32 Major Non-cash Transactions

During the year the institution made a provision of £2,022,000 for future pension costs.

Notes to the Accounts (continued)

33 Pension and Similar Obligations

The College's employees belong to two principal pension schemes, the Teachers' Pensions Scheme (TPS) and the Local Government Pension Scheme (LGPS). The total pension cost for the period was £1,168,000 (2002 - £1,653,000).

Teachers' Pension Scheme

The Teachers' Pension Scheme is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purpose of determining contribution rates.

SSAP 24

The pensions cost is assessed every five years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective Benefits
Investment returns per annum	7.0% per annum
Salary scale increases per annum	5.0% per annum
Notional value of assets at date of last valuation	£142,880 million
Proportion of members' accrued benefits covered by the notional value of the assets	100%

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000 the government actuary carried out a further review on the level of employers' contributions. For the period from 1 April 2002 to 31 March 2003 the employer contribution was 8.35%. This rate increased to 13.5% from 1 April 2003. An appropriate SSAP 24 provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

Under the definitions set out in Financial Reporting Standard 17 'Retirement Benefits', the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the College has accounted for its contributions as if it were a defined contribution scheme.

Notes to the Accounts (continued)

33 Pension and Similar Obligations - continued

Local Government Pension Scheme

The [name] LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2003 was £285,000, of which employer's contributions totalled £178,000 and employees' contributions totalled £107,000. The agreed contribution rates for future years are 11% for employers and 6% for employees.

SSAP 24

The pensions cost is assessed every three years in accordance with the advice of a qualified independent actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Projected Unit
Investment returns per annum	......% per annum
Pension increases per annum	......% per annum
Salary scale increases per annum	......% per annum
Market value of assets at date of last valuation	£....... million
Proportion of members' accrued benefits covered by the actuarial value of the assets	......%

FRS 17

The following information is based upon a full actuarial valuation of the Fund at 31 March 2001 updated to 31 July 2003 by a qualified independent actuary.

	At 31 July 2003	At 31 July 2002
Inflation	2.0%	3.0%
Rate of increase in salaries	4.0%	5.5%
Rate of increase for pensions	2.5%	4.0%
Discount rate for liabilities	4.5%	7.0%

The assets in the scheme (of which the college's share is estimated at 0.77%) and the expected rates of return were:

	Long-term rate of return expected at 31 July 2003	Value at 31 July 2003 £000	Long-term rate of return expected at 31 July 2002	Value at 31 July 2002 £000
Equities	8.0%	967,000	8.0%	625,000
Bonds	5.9%	298,000	6.0%	192,000
Property	7.2%	149,000	7.2%	96,000
Cash	4.5%	74,000	4.5%	49,000
Total market value of assets		1,488,000		962,000

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
College's estimated asset share	11,503	12,503
Present value of scheme liabilities	(12,963)	(11,063)
(Deficit)/surplus in the scheme	(1,460)	1,440

Notes to the Accounts (continued)

33 Pension and Similar Obligations - continued

Local Government Pension Scheme (continued)
Under the transitional arrangements of FRS17, no provision has been made by the College for the institution's share of the deficit of the scheme. If provision were made, the following entries would be made:

Balance Sheet Presentation	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Net assets excluding FRS 17 pension (liability)/asset*	99,169	101,841
Net pension (liability)/asset	(1,460)	1,440
Net assets including FRS 17 pension (liability)/asset	97,709	103,281

Reserves Note	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Income and expenditure account excluding FRS 17 pension (liability)/asset*	17,359	8,793
Pension reserve	(1,460)	1,440
Income and expenditure account including FRS 17 pension (liability)/asset	15,899	10,233

* Amounts exclude SSAP 24 provisions for LGPS scheme underfunding included within the College balance sheet.

Under the transitional arrangements of FRS 17, the College's pension charge for the year calculated under FRS 17 assumptions is not included in the financial statements (as this is currently calculated on a SSAP 24 basis). If the charge had been included on an FRS 17 basis, the following entries would be made.

Analysis of the amount charged to income and expenditure account

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Service cost	388	369
Past service cost	137	127
Total operating charge	525	496
Analysis of net return on pension scheme		
Expected return on pension scheme assets	917	1,234
Interest on pension liabilities	(664)	(582)
Net return	253	652
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	(2,203)	(1,876)
Experience gains and losses arising on the scheme liabilities	(400)	(350)
Change in financial and demographic assumptions underlying the scheme liabilities	(310)	(290)
Actuarial gain/(loss) recognised in STRGL	(2,913)	(2,516)
Movement in surplus during year		
Surplus/(Deficit) in scheme at 1 August	1,440	3,537
Movement in year:		
Current service charge	(388)	(369)
Contributions	285	263
Past service costs	(137)	(127)
Net interest/return on assets	253	652
Actuarial loss	(2,913)	(2,516)
Surplus/(deficit) in scheme at 31 July	(1,460)	1,440

Notes to the Accounts (continued)

33 Pension and Similar Obligations - continued

History of experience gains and losses (in practice, from 2006, 5 years must be shown)

Difference between the expected and actual return on assets:		
Amount £m	(2,203)	(1,876)
% of scheme assets	19%	15%
Experience gains and losses on scheme liabilities:		
Amount £m	(710)	(640)
% of scheme liabilities	5%	6%
Total amount recognised in STRGL		
Amount £m	(2,913)	(2,516)
% of scheme liabilities	22%	23%

34 Post Balance Sheet Events

On 1 August 2003 the College merged its activities with those of Wessex College of Agriculture. At that date all assets, liabilities and activities of Wessex College transferred to Casterbridge College and Wessex College was dissolved. All activities are continuing within the merged College. Assets valued at £1,300,000 and liabilities (£1,020,000) and an operating surplus on activities of £50,000 were transferred.

35 Capital Commitments

	Group and College	
	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Commitments contracted for at 31 July	2,703	2,691
Commitments under finance leases entered into but not yet provided for in the financial statements	Nil	Nil

36 Financial Commitments

At 31 July had annual commitments under non-cancellable operating leases as follows:

	Group and College	
	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Land and buildings		
Expiring within one year	0	0
Expiring within two and five years inclusive	0	0
Expiring in over five years	0	0
	0	0
Other		
Expiring within one year	6	6
Expiring between two and five years inclusive	15	15
Expiring in over five years	3	3
	24	24

Notes to the Accounts (continued)

37 Contingent Liability

The College is currently being sued for damages by a foreign institution concerning programmes run by the College. However, the College has received Counsel opinion that it should not be liable in view of the specific circumstances of the case. The case is proceeding and, in view of the uncertainty, no financial provision has been made in these accounts in relation to this matter. It is not considered practical to estimate the potential liability at this stage

Note: wherever possible, such examples should quote the amounts involved.

38 Related Party Transactions

Due to the nature of the College's operations and the composition of the board of governors (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving organisations in which a member of the board of governors may have an interest are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures. Transactions totalling £101,000, relating to the purchase of specialist equipment, took place with DEF Limited, a company in which the Dean of Engineering has a majority interest. There were no amounts outstanding.

39 Access Funds

	Year ended 31 July 2003 £000	Year ended 31 July 2002 £000
Funding Council grants	283	274
Interest earned	5	5
	288	279
Disbursed to students	(285)	(277)
Audit fees	(3)	(2)
Balance unspent at 31 July	0	0

Funding council grants are available solely for students; the College acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

This note should also cover any successors to Access Funds. The degree of detail given, and the division between types of funding council grant, will depend on the nature of the grants and the institution.

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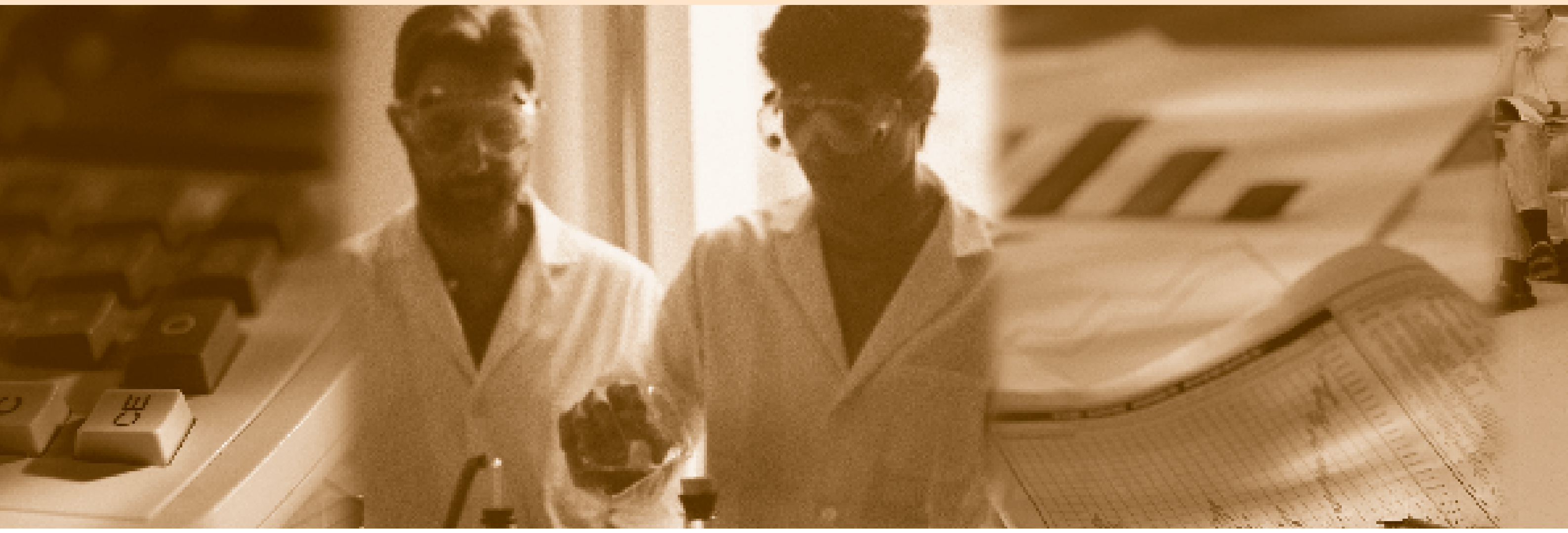

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