College Accounts Direction Handbook 2016 to 2017

Effective for all Colleges' financial statements for periods ending on or after 31 July 2017

Summary

The College Accounts Direction Handbook (the Handbook) is a document commissioned by the AOC in partnership with the College Finance Directors Group (CFDG), which provides advice for Colleges and their auditors on the way in which they can complete their 2016/17 financial statements.

The Handbook provides advice on the implementation of the accounting policies set out in the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (the 2015 FE HE SORP) and the College Accounts Direction 2016 to 2017 issued jointly by the Skills Funding Agency (SFA) and the Education Funding Agency (EFA) (now the Education and Skills Funding Agency – ESFA). The purpose of the Handbook is to interpret the requirements of FRS 102 and the 2015 FE HE SORP for application to an FE College. An example set of financial statements – Casterbridge College – has been created to illustrate the presentation and disclosures that might be found for a typical College.

The Handbook is not mandatory guidance but designed to assist College financial professionals, auditors and reporting accountants with their work.
Extracts from this publication may be reproduced for non-commercial educational or training purposes, on condition that the source is acknowledged and its contents are not misrepresented.

This Handbook supersedes the Accounts Direction Handbook published for the 2015/16 financial statements.

July 2017

Contents

Chapter 1: **Introduction and background**

Chapter 2: **College Accounts Direction 2016 to 2017**

Chapter 3: **Other matters**

Chapter 1 Introduction and background

1.1. The purpose of this Handbook is to provide guidance on the preparation of Colleges' financial statements for the year ending 31 July 2017. This Handbook supplements the 2015 *Statement of Recommended Practice: Accounting for Further and Higher Education* (the 2015 FE HE SORP) *and the College Accounts Direction 2016 to 2017 issued jointly by the SFA and the EFA* in March 2017 and supersedes the Handbook published for the 2015/16 financial statements.

1.2. In publishing this guidance, the CFDG and the AoC have consulted with College financial statements auditors and the ESFA.

1.3. The accounting policies and guidance set out in this Handbook for the sector are applicable to all Colleges, regardless of their size, constitution or complexity. The policies and guidance are not applicable to external institutions, private training providers or other public bodies in receipt of learning and skills sector funding. Sixth Form Colleges that convert to become 16-19 academies will be required to follow the Academies Accounts Direction 2016 to 2017 and as a result, the Charities SORP (FRS 102).

1.4. Accounting policies need not be applied to immaterial items.

1.5. In accordance with Charity Commission guidance, **all** Colleges must make their Annual Reports and Accounts available on their websites, and are required to do so by the *College Accounts Direction 2016 to 2017* **within 2 months of approval**, with **at least two years** of accounts being so presented.

1.6. Colleges with queries on how to apply this guidance to the particular circumstances of their own College should consult their professional advisors or the ESFA.

UK GAAP

1.7. On the 22nd November 2012, the FRC issued its first accounting standards under the new UK financial reporting regime:

- FRS 100 Application of financial reporting requirements; and
- FRS 101 Reduced Disclosure Framework

FRS 100 sets out the available reporting frameworks and how an entity works out which it must or may apply. The framework sets out three types

of 'Companies Act accounts', i.e., those prepared using any of FRS 101; FRS 102; or the FRSSE.

FRS 101 allows qualifying parent and subsidiary entities to apply the recognition and measurement requirements of EU-IFRS but with exemption from some of the disclosures. FRS 101 applies in the **individual** accounts only.

FRSs 100 and 101 applied for accounting periods beginning on or after 1 January 2015 but could be adopted early with immediate effect. The Companies Act has been amended for periods ending on or after 1 October 2012 to allow companies a free choice to switch back to UK GAAP, so long as they have not previously done so in the last five years.

1.8. The final part of the new UK GAAP, *FRS 102 The financial reporting standard applicable in the UK and Republic of Ireland,* was originally issued on the 5th March 2013 with the latest version published on 29th September 2015, and is available at https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicab.pdf . It was effective for accounting periods beginning on or after 1 January 2015 and could not be adopted early by GFE or Sixth Form Colleges.

1.9. FRS 102 (September 2015) introduced a new section 1A for entities classified as small and enabled the withdrawal of the previous FRSSE with effect from 1st January 2016, though it is not expected to be utilised by many colleges due to the greater reporting requirements of the 2015 FE HE SORP which will reduce any benefits from using the exemptions.

1.10. FRS 102 was envisaged to have an initial three-year life though the amendments in 2015 to bring in the new Section 1A for small entities led to the postponement of the full review for a further year. The next iteration of the standard is therefore now expected to be effective for periods commencing on or after 1st January 2019 (2019/20 year ends).

1.11. There are ongoing amendments to FRS 102 as issues arise in its implementation – the majority of these were captured in the September 2015 version of the standard, with the most recent ones being of less relevance to Colleges (Notification of shareholders –

effective from 1st January 2016; and Fair Value hierarchy disclosures – effective from 1st January 2017).

1.12. FRED 67 was issued for consultation in March 2017 and is the result of the triennial review 2017 (Incremental improvements and clarifications). The consultation closed on the 30th June 2017 and included mostly editorial changes for clarification, with the more significant changes being largely not relevant to Colleges.

1.13. Potential impacts of FRED 67 for Colleges include:

- Accounting policy choice now available for entities that rent investment properties to another group entity
- The broadening of the definition of basic financial instruments
- The cash flow reconciliation to (once again) include the net debt reconciliation last found in FRS 1
- Further guidance on agent vs principal relationships

2015 FE HE SORP

1.14. The Education SORP (the 2015 FE HE SORP) was approved on the 26th March 2014 and is available at http://www.universitiesuk.ac.uk/highereducation/Pages/SORP2014.aspx#

The 2015 FE HE SORP reflected the changes to UK Generally Accepted Accounting Practice ("the previous UK GAAP") following the issue of FRS 100, 101 and 102.

Institutions following the 2015 FE HE SORP must apply all requirements under *FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland*, relevant legislation *and accounts directions from the Funding Bodies applicable to the reporting institution*.

The 2015 FE HE SORP is intended to:

- improve the quality of financial reporting by institutions;
- enhance the relevance and comparability of, and the ability to understand the information presented in institution's financial statements;

- provide clarification, explanation and interpretation of accounting standards and their application to sector specific transactions; and
- assist those who are responsible for the preparation of the financial statements.

The 2015 FE HE SORP does not diverge from FRS 102. In certain areas the 2015 FE HE SORP provides an interpretation to aid the practical implementation of FRS 102. The 2015 FE HE SORP also requires a small number of additional disclosures to those required by FRS 102 to be made to ensure consistency and aid understandability.

1.15. The FE HE SORP 2015 was finalised at an earlier point (March 2014) than the latest iteration of FRS 102 (September 2015). As a result, certain minor changes to the original FE HE SORP are required. A summary of these can be found at http://www.universitiesuk.ac.uk/Pages/Results.aspx?k=sorp%2Dguidance%2Dnote%2D2015. The small number of amendments do not affect Colleges in general though the additional guidance on the useful life of an intangible asset may be relevant to some colleges.

Accounts Direction

1.16. THE EFA and SFA issued a joint accounts direction in March 2017. This required institutions' financial statements to be prepared in accordance with the 2015 FE HE SORP. The accounts direction also requires disclosures over and above those required by the 2015 FE HE SORP and FRS 102. These disclosures include the emoluments of the Accounting Officer, the number of higher paid staff, and details of any compensation for loss of office paid to higher paid staff. The *College Accounts Direction 2016 to 2017* is available on AOC's website at https://www.aoc.co.uk/funding-and-corporate-services/funding-and-finance/accounting-and-financial-planning

and on GOV.UK at https://www.gov.uk/government/publications/college-accounts-direction

Set out in Chapter 2 of this Handbook are the key additional requirements of *College Accounts Direction 2016 to 2017* together with

explanatory narrative to assist in the implementation of the requirements.

Small entity reporting

1.17. Whilst not explicitly stated within either the 2015 FE HE SORP or the *College Accounts Direction 2016 to 2017, the presumption in this Handbook is that Colleges will not be taking advantage of the reporting exemptions available within Section1A of FRS 102 (September 2015). The UUK review of the 2015 FE HE SORP, published In March 2016, notes that section 1.3 should be amended to include "Entities that are small, as defined in company law, are permitted to adopt the small entity requirements of FRS 102". Whilst it is possible that some colleges may meet the size criteria (currently being not to exceed two or more of Turnover £10.2m, Balance Sheet total £5.1m, and number of employees being less than 50), it is unlikely that the benefits of doing so will be significant to a College given the other reporting requirements in the Accounts Direction and 2015 FE HE SORP. No discussion of the exemptions has been included in this handbook, but Colleges may wish to discuss this further with their professional advisers.*

Overall impact

1.18. The concepts and basic principles included within FRS 102 are not significantly different to the previous UK GAAP. Four primary statements are to be presented:

- Statement of Comprehensive Income [and Expenditure] (SOCI);
- Statement of Changes in Reserves;
- Balance Sheet (also known as a Statement of Financial Position); and
- Statement of Cash Flows

For the purposes of the 2015 FE HE SORP and the requirements of that and the College Accounts Direction 2016 to 2017, the example accounts - Casterbridge

College – make the assumption that Colleges will only wish to present a single Statement of Comprehensive Income, and not to separately present an Income Statement (similar to the previous Income and Expenditure Account), though they are at liberty to consider this if appropriate.

As a reminder, the Statement of Changes in Reserves is a primary statement and there is no longer a requirement for a note of historical cost surpluses and deficits, which has no equivalent within the new UK GAAP or indeed within IFRS. The Statement of Total Recognised Gains and Losses has also been combined within the Statement of Comprehensive Income.

FRS 102

1.19. FRS 102 is arranged into 35 sections with the 2015 FE HE SORP broadly following the same order. The sections range from Section 1, the Scope of the standard, through sections on the concepts and the various primary statements, to sections on specific topics.

1.20. Section 1 includes a number of exemptions from disclosures required by FRS 102 that Colleges may wish to take (and referred to again in section 3.3 of the 2015 FE HE SORP) and represent the FRS 102 reduced disclosure framework, including:

- The requirement to present separate cash flow statements for the parent undertaking and the consolidated position. This is predicated on making some additional disclosures though regarding cash balances and a statement on taking the exemption, both of which have been included in the Casterbridge College example accounts; and
- The disclosure of intra group related party transactions.

1.21. Section 5 deals with the Statement of Comprehensive Income. This is similar to the Statement of Financial Activity found in a charity in that the “traditional” items of income and expense are presented in the top part, with the bottom part being reserved for other gains and losses (akin to the previously separate statement of total recognised gains and losses).

FRS 102 permits presentation of additional line items, headings and sub totals when such presentation is relevant to the understanding of an entity’s financial performance. This features within the 2015 FE HE SORP in that presentation format. FRS 102 does not use the term “exceptional” though but if an item is of such importance to the user’s understanding of the financial statements then it **must** be presented separately (2015 FE HE SORP para 3.6).

1.22. Paragraph 3.7 of the 2015 FE HE SORP builds on Section 5.9 of FRS 102 in dealing with another change to previous UK GAAP being the disclosure of what were known as exceptional items and in particular those under FRS3.20 which were shown "below the line". Paragraph 3.7 states "The disclosure of material items must be made either in the notes or by the insertion of an additional line **within the relevant activity heading** on the face of the Statement of Comprehensive Income. This is expanded upon further in Chapter 3.

1.23. Section 10 provides guidance on Accounting Policies, Estimates and Errors. Of particular note here is the change regarding ***prior period adjustments***. Under the previous UK GAAP, a prior period adjustment was required for fundamental errors, which is generally understood to be a higher threshold than a material error. Under FRS 102 however, the requirement for a prior period adjustment is set at the material error level.

Prior period errors are omissions and misstatements for one or more prior periods where the necessary information was either available or could reasonably be expected to be available when the financial statements of prior periods were approved. Material errors shall be corrected retrospectively by restating prior period comparatives or if the error was before the earliest period presented, the opening balances for assets, liabilities and equity should be adjusted.

1.24. Section 34 deals with the accounting for a number of ad hoc topics including Public Benefit Entity accounting, agriculture and service concession arrangements.

Other sources of information

1.25. In addition to the published standard, there are useful papers prepared by the FRC on FRS 102 – Staff Education Notes. These can be found at https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/New-UK-GAAP/Staff-Education-Notes.aspx

1.26. The Staff Education Notes are not part of FRS 102 but aim to illustrate certain requirements of FRS 102.

Chapter 2 College Accounts Direction 2016 to 2017

2.1. The *College Accounts Direction 2016 to 2017* (" the Direction") was published in March 2017 and sets out the additional financial reporting requirements for sixth form and other further education colleges, and is available at https://www.gov.uk/government/publications/college-accounts-direction.

The AOC also include the document on their website at

https://www.aoc.co.uk/funding-and-corporate-services/funding-and-finance/accounting.

2.2. The Direction includes a number of mandatory additional requirements that Colleges must include within their 2016 to 2017 financial statements (denoted as "must" in the Direction), including the requirement to follow the 2015 FE HE SORP.

2.3. Set out in this Chapter is additional guidance on interpreting the mandatory and advisory requirements included within the Appendices to the Direction.

Main changes since 2016

2.4. There were no significant changes to the Direction from previous years, in keeping with the trend already seen. Those changes that were included represented:

- Minor re-ordering and renaming of items
- References throughout amended to be solely the Secretary of State for Education (though as the document was issued in March 2017, it predated the merger between the SFA and EFA and therefore does not explicitly refer to the ESFA)
- Website publication of accounts is now required "within two months of approval" and must include at least two years' worth of the accounts
- Annex A and Annex B (covering Corporate Governance and the Statement of Regularity) are largely unchanged)

- Annex C is a new section, covering the Statement of Responsibilities of members (albeit the text is almost identical to that found in previous versions of Casterbridge College)
- Annex D covers specific accounts issues and is effectively the same as the 2016 version, with the removal of specific references to underlying GAAP.

Annex A Statement on Corporate Governance and internal control

Good Governance Code for English Colleges

2.5. In March 2015, the AoC published the Code of Good Governance for English Colleges ("the Code") which is available at https://www.aoc.co.uk/funding-and-corporate-services/governance/governance-resources/code-good-governance-english-colleges

2.6. The Direction states that a College must **either**:

(a) comply with the Code **or**

(b) have ***due regard*** to the principles and guidance of the *Financial Reporting Council's UK Corporate Governance Code 2016* ***insofar as those are applicable to the College sector***.

2.7. The Code contains:

- An initial statement of the core values and expectations that provide the context for the way in which college governance is conducted.
- The 10 governance principal responsibilities that support the values and are vital to successful implementation.
- More detailed consideration of each principal responsibility.
- A list of references and links to source documents and good practice examples.

2.8. The Code is intended to help governing boards meet and exceed basic governance requirements. As autonomous bodies, individual Colleges are free to adopt the Code as they see fit. The Code replaced the Foundation Code.

UK Corporate Governance Code 2016 (the UK Code)

2.9. The UK Code, which is updated every 2 years, superseded and replaced the Combined Code issued by the London Stock Exchange in various forms since 1998. A small number of changes had been made to the previous versions of the UK Code but which do not affect the substance of the following text. The UK Code is mandatory for companies that follow the Listing Rules but is seen as best practice for other entities. Casterbridge College includes as an example of the interpretation of the requirements, both of the Code and of the Direction, a full Statement of Corporate Governance and Internal Control. Colleges should however ensure that where they use this example as a basis for their own statement, they also tailor it according to their own circumstances. The statement has been written for a large general FE college, with a full Internal Audit Service, and assuming that the Code has been formally adopted. With the emergence of different corporate structures in the College sector, it is no longer the case that simply copying the Casterbridge College example text will fulfil the requirements of the Code. Of particular note here will be the responsibility of governors and trustees in the context of large groups with complex subsidiary company relationships including Shared Service Companies.

2.10. The example Statement on Corporate Governance and internal control makes the explicit declaration of compliance with the Code but also a clear statement that the College has NOT adopted and therefore does not apply the UK Code. The introductory text is below:

'Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1st August 2016 to 31st July 2017 and up to the date of approval of the annual report and financial statements. [To be tailored according to which Code the College follows – points below are alternatives and may not all apply to every College]

The College endeavours to conduct its business:

i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership); [and]

ii. [in full accordance with the guidance to Colleges from the Association of Colleges in The Code of Good Governance for English Colleges ("the Code"); and]
iii. having due regard to the UK Corporate Governance Code 2016 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular the College has adopted and complied with the Code. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice.

In the opinion of the Governors, the College [complies with/exceeds all] the provisions of the Code, and it has complied throughout the year ended 31 July 2017. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times. In carrying out its responsibilities, it takes full account of The Code of Good Governance for English Colleges issued by the Association of Colleges in March 2015, which it formally adopted on [date]. [Not mandatory - Colleges should only include this statement if they have adopted the Code and if they wish to include their compliance with it as an important element of their Corporate Governance and Internal Controls]"

2.11. Reference should be made to the Casterbridge example statement though for the illustrative disclosures around the composition of and attendance at Corporation meetings, the committee structure and the processes for identifying and managing risks. The headings used and the illustrative text employed are designed to flag up and deal with each of the mandatory requirements of the Direction but also the best practice exhibited in the Code itself. This will include appointments to the Corporation, the frequency at which the Corporation meets and the processes for ensuring that the Corporation is well informed on an timely basis and has the appropriate balance of skills, experience and knowledge to conduct its affairs.

2.12. There are several areas in the Direction requirements that are very specific to both the individual College and to the period under

review. In these cases the example accounts use only "red text" to draw attention to the requirements and do not seek to provide example text. This includes the review of the Corporation performance and assessment of its own effectiveness (which should be able to be located in the annual reporting for the College in any event) and the assessment of going concern.

Annex B Statement of regularity, propriety and compliance

2.13. Colleges have been subject to a regularity review since 2004/05, with the framework for that review being found within the Post 16 Audit Code of Practice (Post 16 ACOP) and available at https://www.gov.uk/government/publications/post-16-audit-code-of-practice

2.14. The changes to the previous versions are limited, with the content of the supporting Self-Assessment Questionnaire (SAQ) (not yet published at the time of writing but is likely to be little changed from the earlier version) being maintained albeit with some re-ordering of the sections and updating of references.

2.15. The Post 16 ACOP no longer explicitly states that Colleges must complete the SAQ and have it signed by the Accounting Officer and the Chair of Governors however the final version of the SAQ when it is published is expected to include that requirement. A copy of the self-assessment questionnaire must be provided to the external auditor (known as a "reporting accountant" for the purposes of the regularity assurance reporting) for review. It is considered to be good practice for the SAQ to be presented to the Audit Committee and Corporation for approval and that this should be completed before the matters relating to the receipt of the reporting accountant's conclusions. It is recommended that the draft SAQ is considered at the appropriate Board and Committee meetings in the Summer term.

2.16. The Post 16 ACOP Annex D includes the proforma wording for the reporting accountant's assurance report on regularity that applies to College Corporations.

2.17. The Post 16 ACOP now includes a new Annex (C) which covers common regularity reporting issues which are all concerned with Governance and effective management.

Annex D Specific accounting and disclosure matters

2.18. The *College* Accounts *Direction 2016 to 2017* includes a number of specific accounting matters in Annex D. The paragraphs below look at each of the items in turn where required.

Legal status and Public benefit

2.19. Paragraphs i and ii of Annex D state that Colleges must include details of their charitable status and a statement about public benefit. These are both essential requirements that are required by the Charity Commission in order to help preserve the College's charitable status.

2.20. GFE and Sixth Form Colleges that are FE corporations are exempt charities. Exempt charities are not exempt from registering with the Charity Commission and remain outside of its regulatory jurisdiction.

2.21. Following the Machinery of Government changes in July 2016, the Department for Education is responsible for sponsoring all types of FE corporation and regulations were passed in autumn 2016 that confirmed that the Secretary of State for Education is the principal regulator for FE colleges. Regulations passed in 2011 confirmed this role for sixth form colleges.

2.22. The requirements for Sixth Form Colleges and FE colleges in this respect are effectively the same. Casterbridge College includes example text to cover these points as follows:

"Legal status

The Corporation was established under the Further and Higher Education Act 1992 for the purpose of conducting [Casterbridge] College. The College is an exempt charity for the purposes of Part 3 of the Charities Act 2011.

Public Benefit

[Casterbridge] College is an exempt charity under the Part 3 of the Charities Act 2011 and is regulated by the Secretary of State for Education. The members of the Governing Body, who are trustees of the charity, are disclosed on page xx.

In setting and reviewing the College's strategic objectives, the Governing Body has had due regard for the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The guidance sets out the requirement that all organisations wishing to be recognised as charities must demonstrate, explicitly, that their aims are for the public benefit.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- Widening participation and tackling social exclusion
- Excellent employment record for students
- Strong student support systems
- Links with employers, industry and commerce."

2.23. It is important that Colleges include the underlined text as a minimum and that they tailor the text regarding how the College has delivered its charitable purposes for the public benefit.

Plans for future periods/reserves policy

2.24. Paragraph iii of Annex D of the *College Accounts Direction 2016 to 2017* *"encourage[s] transparency in college accounts"* as well as reminding Colleges that Sections 3.19 to 3.22 of the FE HE SORP set out what Colleges must include in their annual report (referred to as a "Strategic Report").The Strategic Report replaced the Operating and Financial Review in College financial statements, though it does not have to be named as such. Alternatives could include Members' Report, Report of the Governing Body or Trustees Annual Report for example, but the content should still include, as a minimum, the items set out in the 2015 FE HE SORP, as well as any additional items required by the *College Accounts Direction 2016 to 2017.* The form of this report is not prescribed but Colleges that are also companies will need to consider the need to sign off a separate Strategic Report and should consult their professional advisers on the implications for the format of their financial statements.

The 2015 FE HE SORP "considers that disclosure of the following items is best practice for all institutions:

- its objectives and strategy for achieving those objectives;

- its development and performance throughout the financial year and position at the end of the financial year;
- its future prospects;
- a description of the principal risks and uncertainties being faced; and
- its key performance indicators."

2.25. The illustrative text in Casterbridge College should be tailored to the specific position of the College. The key performance indicators noted above are given greater prominence now as are future prospects. Colleges should include the KPIs, and the assessment against them, that the College uses internally as well as the measures assessed externally such as Financial Health, sector specific EBITDA, Minimum Standards, delivery against funding targets, Success rates etc. Due consideration of the emerging benchmarks and measure employed in the Area Reviews and FE Commissioner reports should also be given.

2.26. "Future prospects" is more difficult to apply but should not be ignored by Colleges. The forward-looking orientation of the Strategic Report is a key element in complying with the requirements of the 2015 FE HE SORP.

2.27. Paragraph iii of Annex D of the *College Accounts Direction 2016 to 2017* also "encourages Colleges to review their reserves policy, the level of reserves held and [to set] out, where appropriate, how these align with strategic plans." In accordance with that, Colleges should consider setting out a Reserves policy, stating the reasons for holding reserves, how they will be built up and maintained and the level identified by the Board as being appropriate for the College. The policy should also then compare the actual level of reserves to this target and set out any relevant plans to bring them in line with each other. In reviewing the level of reserves, Colleges should explicitly consider the levels that are freely available for general purposes as well as those subject to restrictions. Casterbridge College includes an example of such a policy, which should be tailored to the circumstances of each College.

Remuneration of Key Management Personnel and higher paid staff

2.28. Paragraph 25.8 of the 2015 FE HE SORP defines key management personnel using the definition in FRS 102 paragraph 33.6 as "those persons having authority and responsibility for planning, directing

and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity".

2.29. Compensation is defined in FRS 102 paragraph 28.4 and includes all employee benefits, all forms of consideration paid, payable or provided by the institution or on its behalf in exchange for services to the institution. Institutions are required to disclose this information at an aggregate level, not an individual level. The disclosure should be reported gross of any salary sacrifice arrangements.

2.30. Based on the definition of employee benefits within Section 28 of FRS 102, the total of key management compensation would include the following, where applicable:

- wages and salaries
- social security costs such as employer's national insurance contributions;
- paid annual leave and paid sick leave;
- termination benefits;
- profit sharing arrangements and bonuses;
- non-monetary benefits (such as medical care, housing, cars and free or subsidised goods/services);
- post-retirement benefits including employer's pension costs ;
- long term benefits such as long term paid absences; and
- share-based payments.

The difference here to the disclosure requirements under previous UK GAAP will largely be the inclusion of Employers' National Insurance in the aggregate figure. The *College Accounts Direction 2016 to 2017* continues to require the disclosure of key management personnel remuneration in the bandings table suggested, as being **excluding** Employers National Insurance.

2.31. The change to "key management personnel" from "senior postholders" in 2015/16 will mean that a wider group of staff will need to be considered by Colleges, and indeed a group that will have to be specifically identified by each College according to their own circumstances and structures. A mere comparison with Senior or College Management/Leadership Team definitions will not be enough either.

2.32. Colleges should decide which staff are captured by the definition above and for clarity, disclose the information in the financial statements. Casterbridge College example accounts include a skeleton disclosure in the schedule of Key Management Personnel, Board of Governors and Professional Advisers.

2.33. The disclosures required by the Direction for key management personnel and higher paid staff are otherwise very similar to those required under the previous Direction. Some additional clarity has been inserted through requiring for example, the start and end dates of the accounting officer if there is more than one in the course of the year and for stating that number of key management personnel needs to be disclosed in bands of £10,000 with a starting point of £nil.

2.34. The requirement to disclose the number of key management personnel and of higher paid staff (defined as those whose emoluments are £60,000 or more per annum) has caused some issues for Colleges. The banding disclosures are intended to capture "head count" numbers, in the appropriate banding for the full year emoluments. Colleges may therefore need to include additional narrative in the notes where there are numbers of staff who left and/or joined in the year.

2.35. The definitions for emoluments are set out in paragraph iv (d). Errors in this analysis in the past have included omitting benefits in kind or including employers' national insurance.

2.36. An additional disclosure, which derives from the requirements in the 2015 FE HE SORP paragraph 25.8, is in respect of salary sacrifice arrangements. These are required to be grossed up for relevant disclosures and the Direction then goes on to require Colleges to describe any such arrangements in place. A formal statement that there are no such arrangements in place is required if applicable.

Compensation for loss of office and severance payments

2.37. Paragraphs v and vi of Annex D of the *College Accounts Direction 2016 to 2017* set out the disclosure requirements for compensation for loss of office. These are unchanged from previous years and as before, Colleges should consider both these and the Key Management Personnel remuneration disclosures in the context of the annualised rate of pay applicable to those staff i.e. the decision as to whether or

not to include them and in which band should be judged against their full year equivalent remuneration.

2.38. Colleges are also required to disclose the amount of severance costs for each year split between contractual and non-contractual payments and to disclose whether the costs were approved by the Corporation or a committee established by the Corporation for this purpose.

2.39. Non contractual severance payments are paid to employees outside of normal statutory or contractual requirements when leaving employment whether they resign, are dismissed or reach an agreed termination of contract.

2.40. Colleges are reminded that there are specific tests in the Regularity Framework concerning severance payments including demonstrating that payments in respect of termination are regular and secure value for money and avoid spending funds on settlements where disciplinary action would have been more appropriate.

2.41. The Corporation should be able to demonstrate these matters through advice received, minutes of consideration and notification to the reporting accountant.

Transactions with governors or trustees

2.42. Paragraph vii of Annex D of the Direction notes that in certain cases, it may be deemed justifiable to compensate governors for the costs of childcare and loss of earnings. The Governing Body will need to consider each case for an exceptional payment on its merits and be satisfied that there is no remunerative element to it. ***Colleges are required to disclose full details of any such payments made to governors in their financial statements(which includes the total of such payments and the number of governors or trustees who received the payments) and reminded that they will need to seek express permission from the Charity Commission to effect such payments where appropriate***.

Accounting for government grants

2.43. The final paragraph of Annex D – viii – reminds Colleges that, as before, government grants need to be disclosed separately in deferred income (which would apply for both the accrual and performance models) and in the funding body grants.

Chapter 3 Other matters

Background

Casterbridge College 2017 model accounts

3.1. The accounts have been drawn up in the context of the need to keep the level of changes to a minimum and to simplify where possible, retaining as much of the original language as possible. The Members report ("Strategic Report") in particular has had few changes as a result at this stage. Some language has had to change to comply with FRS 102 but where possible, previous naming conventions have been retained.

3.2. As stated on the front cover of the accounts, these are example accounts and not template accounts – they do not and cannot cover all possible disclosures that Colleges might face in complying with FRS 102 and further reference to the standard and to the 2015 FE HE SORP will be necessary as a result.

3.3. A number of baseline assumptions were made in converting Casterbridge College to the new standard as follows. Where it is thought useful to include an illustration of the likely presentation and disclosures for certain items, without including a full evaluation of those, then these have been included as "red text" additions. These are not exhaustive and therefore reference to both the FRS 102 and the 2015 FE HE SORP will be required where necessary:

- **Accrual model** adopted for government grant accounting with capital grants therefore being reanalysed into deferred income, split between amounts due within one year and the balance due after more than one year. Based on the published data at May 2017 for FE in 2015/16, around 27 Colleges adopted the performance model on transition to FRS 102.
- No revaluation of Property, Plant and Equipment but deemed the cost at the transition date and the College ***elected to retain*** the Revaluation Reserve as a separate reserve
- Holiday pay provision set up as a transition adjustment and has NOT been re-measured in the period so no changes throughout.

- **Key management personnel** - no major changes here other than naming conventions as it will depend on each college defining that group appropriately and the need to disclose a single aggregate figure for key management personnel compensation for which the definition of "compensation" ***includes social security contributions such as Employers National Insurance***.
- FRS 102 (28) replaces "FRS 17" as the naming convention for the pensions notes
- The pensions valuation amends the net interest cost in most Colleges
- The 2015 FE HE SORP no longer overrides the exemption from including government departments and agencies as Related Parties

Income recognition

3.4. For the avoidance of doubt, and because several enquiries are made on the matter each year, Colleges and their advisors are reminded that the recurrent grant for 16-18 year olds is calculated on a lagged learner basis each year. It is important to understand that this is a calculation only, not a recognition of either over or under delivery against a particular year's allocation. There is therefore no right to any growth in the allocation that would be included in the following year's allocation, nor any need to provide for the clawback of under-delivery.

Accounting for Free meals, bursaries and amounts disbursed as agent

3.5. FRS 102 does not discuss amounts disbursed as an agent in the context of those arrangements found in FE in any depth. Paragraph 23.4 states "An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. [ ] The amounts collected on behalf of the principal are not revenue of the entity." Appendix 1 Glossary goes on to define an agent as "An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services."

3.6. The 2015 FE HE SORP is more helpful in understanding how to account for agency arrangements:

"Agency arrangements may exist for revenue, government grants and non-exchange transactions. Where the institution is an agent it would not normally be exposed to the majority of the benefits and risks associated with the exchange transaction (including performance of the transaction, price or credit risk). Where the institution disburses funds it has received as paying agent on behalf of a funding body or other body, and has no beneficial interest or risks related to the receipt and subsequent disbursement of the funds, these funds should be excluded from the Statement of Comprehensive Income of the institution. Any commissions received whilst acting as agent would be included as income."

Certain types of funds received from the funding bodies in previous years have required additional guidance, in particular Free Meals and in 2016/17, the 19+ Discretionary Learner Support Funds:

- Free Meals – the recent changes to the funding rules around these funds have provided flexibility but also a requirement to return unspent funds. The need to disclose as "Agency" funds in the memorandum notes at the back of the financial statements no longer applies but Colleges must nevertheless maintain records of the relevant expenditure of the funds, with unused funds being taken to a funding body creditor on the balance sheet.

- Discretionary Learner Support funds – these have been amalgamated into the overall Adult Education Budget for 2016/17 and as a result, "control" over the funds now resides with the College who can decide (within their own financial regulations) how to disburse the funds. Income and expenditure will therefore be recognised within the Statement of Comprehensive Income in the year.

For the avoidance of doubt again, the funds referred to above should no longer be treated as an agency arrangement.

Apprenticeship levy accounting

3.7. This is a levy on payroll and the liability to pay should be recognised when the payroll trigger is reached (currently £3 million and levied at 0.5% on amounts above that).

3.8. The accounting for this cost will depend on the plans an individual college has for utilising it. In the absence of any specific plans the default position should be to assume that it is a cost to the College and to include it within staff costs under "social security costs". Separate disclosure is unlikely to be required due to the relatively small amounts involved for most Colleges, but that does not prevent a College from adding a new line to the staff costs disclosure if desired.

3.9. However, it may be possible to treat an element of the levy as a prepayment on the balance sheet in relation to that amount that will be utilised to fund approved apprenticeships within 24 months following the year end. A clear action plan and evidence will need to be provided to support this prepayment. As the funds are utilised, they will be released from prepayments with the debit to staff training / apprenticeships.

3.10. For Colleges with apprenticeships eligible to utilise Digital Apprenticeship Service funding, the levy payment made will be recognised as a prepayment for future training services. When the training service is received, an appropriate expense would be recognised.

3.11. The 10% 'top up' from the government would be recognised as government grant income in accordance with Section 24 of FRS 102 when the associated expense in respect of training services received is recognised.

Property, Plant and Equipment (Fixed assets) accounting

3.12. Section 17 of FRS 102 applies to the accounting for Property, Plant and Equipment ("PPE"), previously referred to as Fixed Assets (and termed "Tangible Fixed Assets" in the 2015 FE HE SORP). In the Casterbridge College accounts these are also referred to under "Non-current assets". PPE are tangible assets held for use in the College and are expected to be used during more than one period. They will include Investment property, where such property's fair value cannot

be measured reliably or without undue cost and effort (though unlikely in practice for most Colleges).

3.13. Section 18 of FRS 102 deals with Intangible assets other than Goodwill (where Goodwill is dealt with in Section 19 along with Business Combinations). We have not covered either of these areas in the Handbook as they have been deemed to be of interest only to a relatively few Colleges. Colleges should consult with their professional advisers if they believe they are affected by these areas.

3.14. PPE does not include biological assets, heritage assets, and mineral rights/reserves (see Section 34). Individual components of an item of PPE and the costs of major inspections may need to be recognised as separate items of PPE. Land and buildings are considered to be separable assets even when they are acquired together.

3.15. Where the revaluation model is adopted, Colleges should note that the requirements under the previous UK GAAP regarding the frequency of interim and full revaluations no longer apply. Instead, revaluations must be "sufficiently regular" so that the carrying value of an asset at the reporting date is not materially different from its fair value, which will require at least an annual formal consideration of the carrying values. The expectation of both the 2015 FE HE SORP and FRS 102 is that the valuation would be carried out by professionally qualified valuers with the date, use of the valuer, main assumptions and original cost equivalent being disclosed in the same way as before.

Accounting for land and buildings owned by third parties

3.16. A number of Colleges, in particular Sixth Form Colleges, occupy premises where the freehold or leasehold is owned by a third party such as a Diocese or other religious body, of independent trustees of a Foundation Trust. Some of these arrangements are informal, or at best governed by a licence to occupy, with no rental payable. Many of these arrangements do in turn have a requirement laid upon the College to maintain the premises to an agreed standard. The key issue arising here is whether the College should recognise a fixed asset on its balance sheet.

3.17. The 2007 SORP used to contain a brief paragraph (number 95) on the accounting for assets used by institutions:

"A number of institutions occupy premises which are owned by other bodies and for which no rental or a nominal rental is made. In some cases there may be no formal agreement to occupy. Where an institution enjoys the use of an asset which it does not own and for which no rental or a 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 *deferred capital grants* (which should subsequently be released to the income and expenditure account in accordance with paragraph 54), and thereafter depreciated over the period of use (see also the accounting principles applied to gifts in kind in paragraphs 154 to 156). Where no formal occupancy agreement exists, the institution should consider regularising the position by the establishment of a lease or licence, as this will assist in determining a value for the benefit."

3.18. The equivalent discussions are absent from the 2015 FE HE SORP and not explicit in FRS 102 either. Many Colleges had accounted for such assets under an earlier SORP by taking the credit to the revaluation reserve (in the same way that assets inherited from local authorities had been accounted for) though some either changed their approach following the 2007 SORP or accounted for such assets for the first time, and recognised the credit in deferred capital grants. The concept of deferred capital grants no longer exists and as such the balance will need to be recognised in deferred income instead, and split between amounts falling due within one and in more than one year.

3.19. FRS 102 defines an asset as 'a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow'. For Colleges this will mean:

- **Future economic benefits** are expected to flow to the College as it will avoid the cost that it would otherwise have incurred in obtaining premises and it intends to continue to occupy the property for the foreseeable future
- **A past event** may have arisen in the form of the signing of an agreement permitting continued occupancy of the premises or the past occupation of those premises

- **Control** means the ability to determine who is, and who is not, able to use the asset and therefore obtain economic benefits from it. Issues that a College will need to consider include:
  - Control over access
  - Control over works including capital works

3.20. If the College cannot conclude that it has control over the property then the premises would not meet the definition of a fixed asset. This will need to be considered carefully on a case by case basis, reviewing the distribution of risks and rewards in respect of the right to use the property from the arrangements between the College and the other party. Regardless of the conclusions reached, the financial statements should disclose the accounting policies and the facts that led to the conclusions under the heading of "Judgements in applying accounting policies".

Investment Property

3.21. Investment property is dealt with in section 16 of FRS 102 and Section 10 of the 2015 FE HE SORP. Paragraph 16.2 of FRS 102 provides the definition of Investment Property with paragraph 10.2 of the 2015 FE HE SORP helpfully expanding on the exclusion criteria for educational institutions being for social benefit and therefore not typically classified as investment property. This means that for example, student accommodation should be classified as PPE rather than as an investment property.

3.22. The distinction is important because investment property should be measured at fair value at the end of each reporting period, and any changes in fair value should be recognised immediately in the Statement of Comprehensive Income. This will mean there could be volatility in reported results as a result of the valuation movements.

3.23. The consideration as to whether a property meets the definition of an investment property should be made at the individual entity level as well as at the consolidated level. This could mean there are differences in the way the same property is accounted for between the individual entity level accounts and the consolidated accounts.

3.24. Similarly, "mixed use" property – where for example, the ground floor is leased out for retail units and the upper floors are employed for educational use – will need to be split out and accounted for separately, subject to the ability to reliably measure the fair value of

these without undue cost and effort. Colleges will need to review their property portfolios and consider the need to reclassify assets according the definitions in the FRS and the 2015 FE HE SORP. The "mixed use" change is likely to generate differences in accounting treatment compared to the previous UK GAAP but also the existence of property leases between group members such as subsidiary companies of the College.

Leases

3.25. The accounting for leases is found in section 20 of FRS 102 and section 14 of the 2015 FE HE SORP. The basic understanding of lease accounting under the current version of FRS 102 is in many ways similar to previous UK GAAP but with some important distinctions.

3.26. A lease is classified at inception as a finance lease if it transfers substantially all of the risk and rewards incidental to ownership. All other leases are classified, at inception, as operating leases. For the purposes of this Handbook, we will only consider the Lessee accounting aspects though and transactions involving a sale and leaseback will similarly be deemed to be outside the scope of this Handbook as well. Any Colleges who have such arrangements should consult with their professional advisers accordingly.

3.27. Examples of situations that individually or in combination would normally result in a classification as a finance lease include:

- The lease transfers ownership of the asset to the lessee by the end of the lease or the lessee has the option to acquire the asset at a price significantly lower than fair value;
- The lease term is for the major part of the economic life of the asset even if title has not been transferred;
- At the inception of the lease the present value of the minimum lease payments amount to at least ***substantially all*** of the fair value of the leased asset;
- Lease assets are of such a specialised nature that only the lessee could use them without major modifications; and/or
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

3.28. The phrase "***substantially all***" points to one of the key differences between the previous UK GAAP and FRS 102. Under the previous UK

GAAP a key test of the transfer of the risks and rewards of ownership was the "90% test" – did the Net Present Value of the minimum lease payments under the lease equal or exceed 90% of the fair value of the asset. This led to a substantial number of leases being written to fall just under the 90% limit to qualify as operating leases.

Arrangements that contain a lease

3.29. FRS 102 contains guidance derived from full IFRS on whether certain arrangements, although not in the legal form of a lease, nonetheless convey the rights to use of an asset in return for payments in the same way as a lease. For affected Colleges, IFRIC 4 elaborates on the factors to consider. Typically, they may be found in some outsourcing arrangements. The payments made and the length of the contract mean that assets used to service a contract by a supplier are to all intents and purposes transferred to the customer as if they were leased, only as part of a much wider service contract. In such circumstances it might be necessary for lease liabilities and leased assets to be recognised on inception of the arrangement, with judgement needed to be applied to determine how much of the overall contract payment is in substance lease payments.

Types of arrangements this may affect are catering and IT contracts whereby the contract price covers the cost of specific equipment installed by the third party supplier to provide the contracted services.

Lease incentives

3.30. FRS 102 requires lease incentives to be spread over the lease term, for those leases signed after the transition balance sheet date (1st August 2014 for Colleges).

Disclosures

3.31. For lessees FRS 102 requires the ***total future minimum lease commitments*** to be disclosed, analysed in time frames of not later than one year, between one year and five years, and later than five years. By contrast, the previous UK GAAP required disclosure of the annual lease commitment, analysed by when the payments fall due. In this respect, FRS 102 provides information on the total off-balance sheet finance obtained through operating leases as opposed to the approach in the previous UK GAAP of focussing on the future annual expense and cash outflow.

3.32. Colleges will need to assess whether they have arrangements that contain a lease, whether they have the lease documentation to

classify the leases appropriately and whether they have the information to generate the required disclosures. It is unlikely that the simple answer will be “it is not material” and therefore Colleges will need to at least have completed some reviews of significant leases and those contracts in areas where there is more likelihood of lease arrangements.

Service concessions

3.33. FRS 102 (section 34.12) defines a service concession arrangement as an arrangement where a public sector body or public benefit entity (the “grantor”) contracts with a private sector entity (the “operator”) to construct (or upgrade), operate and maintain infrastructure assets for a specific period of time.

3.34. Colleges may find themselves in this situation if, say, they enter into arrangements with other parties to refurbish, build, or take over student accommodation at some point in the future in return for payments or guaranteeing liabilities of the operator. The 2015 FE HE SORP clarifies that student accommodation is an infrastructure asset.

3.35. Under the previous UK GAAP, there was guidance on such contracts in FRS 5: Accounting for the substance of transactions. The key consideration under FRS 5 was whether an operator had assets (e.g. a property) used to provide the contracted services, or alternatively a debtor, being the right to receive payments for the contracted services (in which case the property was an asset of the grantor).

3.36. Which of the two contracting parties should have been recognising the asset and related liability was driven by an assessment of who was exposed to the associated risks and rewards of that asset. This led to a number of contractual arrangements being set up that were specifically designed to keep the underlying asset off the balance sheet of the College by adjusting the perceived balance of those risks and rewards.

3.37. The FRS 102 definition has two specific conditions attaching to it to assist in identifying the possibility of a service concession:

- The grantor controls or regulates what services the operator must provide, to whom, and at what price

- Where the arrangement is for a period less than the useful economic life of the infrastructure assets, the grantor controls any significant residual interest in the property at the end of the term of the arrangement.

3.38. Where these two conditions are met, the grantor (the College) rather than the operator will recognise the asset(s) which is (are) the subject of the contract, and a liability for the payments for its obligation under the service concession arrangement, i.e. account for any amounts payable, including any amounts guaranteed as a finance liability.

3.39. The 2015 FE HE SORP goes on to provide a decision tree to help determine whether an arrangement needs to be accounted for as a service concession arrangement:

- Is the College acting as principal within the arrangement?
- Does the arrangement meet the definition of a service concession arrangement?
- Does the arrangement pass the control tests set out in FRS 102?

3.40. Only if ***all*** three tests are met will the arrangement be accounted for in accordance with the leasing arrangements in FRS 102 and an asset and liability recognised at the present value of the minimum lease payments. Future lease payments would be allocated between finance charges, lifecycle costs, service costs and repayment of the liability.

3.41. This is a complicated area whereby each case needs to be judged on its own facts and circumstances. It is not expected that it will affect the majority of Colleges though each should have already reviewed their contractual arrangements for the possible existence of a service concession as part of the preparation for transition to FRS 102.

Government Grants

3.42. Section 24 of FRS 102 deals with what is probably the most complex area of difference between current and the previous UK GAAP, containing as it does some unfamiliar concepts and a host of new terminology. The final version of FRS 102, and indeed the 2015 FE HE SORP, represents a compromise in moving from the previous UK GAAP baseline of matching income and expenditure to the IFRS

based equivalents. Section 34 on Specialised Activities, includes a number of "PBE" prefaced paragraphs on the accounting for non-exchange transactions (donations) as well as a whole Appendix (B) on the same topic. It is not the intention of this Handbook to cover the accounting for donations in any detail and hence Colleges should consult their professional advisers in this respect. In broad terms though – and the definitions follow below – the accounting for the three main types of income will be as follows:

- Revenue accounting ("exchange transactions") – accrual model (essentially no changes to previous UK GAAP)
- Government grants, capital and/or revenue– accrual or performance model
- Non-exchange transactions – performance model only

The accruals concept was key to the previous UK GAAP but is less obvious in FRS 102 which, as noted, has its roots in IFRS.

Definitions

3.43. **Government grants** are essentially a specialised type of non-exchange transaction created as part of the development of the standard.

A government grant is assistance by government in the form of a transfer of resources normally for past or future compliance with specified conditions relating to operating activities. Grants are accounted for under one of two models with the chosen model applied to all grants as an accounting policy choice:

- the "**performance model**", whereby grants are recognised in income when there are no specified future performance conditions or when any specified future performance conditions have been met.

Grants received before the revenue recognition criteria are satisfied are recognised as a liability, i.e. within deferred income.

- the "**accrual model**", which requires the grant to be classified as ***either*** relating to revenue expenditure or asset expenditure. Grants relating to revenue expenditure are recognised in income "on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to

compensate". Grants relating to assets are recognised on a systematic basis over the expected useful life of the asset. The accrual model therefore matches the recognition of the grant in the income statement with the related expenditure. Where income on a grant related to an asset is deferred it shall be recognised as deferred income and not deducted from the carrying amount of the asset (as before except that previously the deferred income was called a deferred capital grant and included in a separate balance sheet category).

3.44. Colleges can choose one approach for capital government grants and one approach for revenue government grants (except for government grants for land in which case they have to use the performance model). The complication of the accounting policy choices available will be most obvious where a College has a grant for the acquisition and/or construction of a building on land it does not already own, in which case the grant would need to be allocated between the separable elements. This could become even more complicated if the grant in question is jointly funded by both a government and a non-government body.

3.45. Grants that do not meet the definition of a government grant must be accounted for as a non-exchange transaction in accordance with section 23 of FRS 102, which only permits use of the performance model. Government grants will come from obvious sources such as the ESFA, HEFCE and local authorities but as the full extent of what could be defined as "government" is not explicitly set out in either FRS 102 or the 2015 FE HE SORP (though the latter does give some high level examples in paragraph 17.2), Colleges should consider carefully the origins of funding received from external parties. The 2015 FE HE SORP goes on to note in paragraph 17.3 that where the external party receives a significant portion of its funding from a non-government source then it would be considered a non-government entity – the reverse of this is obviously true as well and might encompass a charity providing funding to a College but whose own funding in turn is largely derived from government (essentially a conduit funder from government in the same way that Colleges act as lead for consortium arrangements). Some limited enquiries might be expected from Colleges to ascertain the ultimate funding source of the grants received to satisfy the accounting treatment chosen.

3.46. Grants, including non-monetary ones, shall not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received.

When a grant becomes repayable it shall be recognised as a liability when the repayment meets the definition of a liability.

3.47. A **restriction** "is a requirement that limits or directs the purpose for which a resource may be used which does not meet the definition of a performance related condition". This would typically be an all or nothing approach such as the requirement to build a College classroom.

A **performance related condition"** is "a condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance". This will not include milestones or administrative tasks such as submitting a grant claim.

Additional line items ("exceptional items" under old GAAP)

3.48. It is important to note that **the concept of "exceptional items" no longer exists in UK GAAP,** as such the term should not be used in the primary statements.

3.49. As noted in Chapter 1, FRS 102 permits presentation of additional line items, headings and sub totals when such presentation is relevant to the understanding of an entity's financial performance. This features within the 2015 FE HE SORP in that presentation format through the reference to "Fundamental" restructuring costs adjacent to the staff costs line (albeit the term "fundamental" should not be used either). FRS 102 does not use the term "exceptional" though but if an item is of such importance to the user's understanding of the financial statements then it **must** be presented separately (2015 FE HE SORP para 3.6).

3.50. Paragraph 3.7 of the 2015 FE HE SORP builds on Section 5.9 of FRS 102 in dealing with another change to previous UK GAAP being the disclosure of what were known as exceptional items and in particular those under FRS3.20 which were shown "below the line". Paragraph 3.7 states "the disclosure of material items must be made either in the notes or by the insertion of an additional line **within the**

relevant activity heading on the face of the Statement of Comprehensive Income".

3.51. The one remaining "below the line" item that Colleges will recognise from old GAAP is the separate disclosure of gains and losses on the disposal of fixed assets, which the 2015 FE HE SORP includes in its proforma primary statements as below the "Surplus/ (Deficit) before other gains losses" line and alongside losses and gains on investments. In line with old GAAP though, this is intended only to be used for items that are clearly unusual. FRS 102 states at paragraph 5.9B that activities that would normally be regarded as "operating" should be included in arriving at the results from operating activities. In this regard, the "normal" turnover of fixed assets such as the disposal of IT equipment would be part of operating activities. Significant disposals of buildings may be open to discussion as to whether they should fall to be treated as operating activities or to be disclosed below the equivalent of the operating surplus line.

3.52. It should also be noted that the proposed changes to FRS 102 within FRED 67 state that, 'it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs, <u>profits or losses on the sale of fixed assets</u> and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount.'

3.53. Regardless of whether the term "Exceptional item" exists within the new UK GAAP, Colleges will find that it affects a number of other areas that will be equally important to them. In addition to the reported results, such items may have an impact on the financial health score as calculated by the ESFA and on bank loan covenant testing, depending on the terminology used. With regards to the Financial Health score, the current list of acceptable moderation criteria in the 2016/17 Financial Planning Handbook does <u>not</u> include one off items such as merger related costs or loan breakage costs. As it stands, a College will need to present a case on its individual merits with the ESFA to amend the auto score financial health grading if this proves necessary.

3.54. Bank loan covenants may still include definitions of "exceptional items" in determining the benchmark results for assessing compliance with the conditions. These will be need to be analysed to see if for example merger related costs can be excluded from such calculations, though often the bank will present some standard

items and indicate that other items should be discussed with the relevant manager. Many recent bank loan covenants are actually entirely silent on the issue. As always, such discussions should take place well in advance of the year end so that any relevant waivers can be put in place before the 31st July should they be required.

3.55. Colleges may wish to give such information more prominence in other ways such as presenting such one off items on the face of the Statement of Comprehensive Income above the "surplus before other gains and losses" line, where they are material to the understanding of the College's financial performance, and using a "boxed" presentation as shown below:

	2016	**2015**
Surplus before other gains and losses	**X**	**X**
Analysed as:		
Operating surplus before exceptional items	X	X
[merger related costs/loan breakage costs/etc]	(X)	(X)
Operating surplus	**X**	**X**

Restricted reserves

3.56. Allied with the accounting for non-exchange transactions is the area of restricted reserves, a concept introduced over and above the basic requirements of FRS 102, by the 2015 FE HE SORP in section 18. This is in part a carry-over from the 2007 SORP and its extensive narrative around endowment accounting but also because of the nature of non-exchange transactions and the restrictions that may apply to them.

3.57. Paragraph 18.17 of the 2015 FE HE SORP requires the disclosure of brought forward and carried forward restricted reserves and the reconciliation of the two, with reserves being analysed by "materially similar types of restriction". Whilst a great deal of this accounting is still aimed at endowments and donations, which do not materially

affect the majority of Colleges, it does also pick up on for example, government grants with restrictions.

The balance sheet is required to analyse reserves between restricted and unrestricted elements and the same analysis is to be provided for the Statement of Comprehensive Income and Statement of Changes in Reserves.

Designated reserves/funds

3.58. A distinction is required to be drawn here for designated reserves or funds. Paragraph 18.22 of the 2015 FE HE SORP is quite clear that "Such designations are an internal matter for each institution and therefore must not be disclosed in the primary statements". For the avoidance of doubt, this means that the previous 2007 SORP concept of holding a separate "Pension Reserve" on the face of the balance sheet, is no longer an option as this is just part of the income and expenditure reserve. Colleges may wish to include an analysis of the income and expenditure reserve to separate out the pension reserve element in the notes to the accounts if they wish, but must not do so on the balance sheet as this is a primary statement.

Business combinations

3.59. The previous versions of the Handbook included extensive guidance on business combinations ("mergers") between Colleges. These distinguished two main operating models (Type A and Type B) for the combinations and in certain respects, little has changed here. Type B combinations are still the most common method found to date, with no Type A combinations since 2012. Whilst the operating models of Type A and Type B provide an easily understood method of identifying the combination, they do not necessarily correlate directly with the accounting that will follow. Each combination will need to be considered on its individual merits and against the criteria set out below. In some circumstances, there will not be an obvious conclusion and therefore early engagement with the Colleges' professional advisors will be critical.

3.60. FRS 102 deals with Business combinations in section 19, with further discussions in Appendix IV (paragraphs A4.30 and A4.30A) and in Section 34 Specialised activities, where the particular circumstances of Public Benefit Entities are explored (Paragraphs PBE 34.75 onwards). The guidance on business combinations is unfortunately spread across several sources including "The Large and Medium-

sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)" – referred to as "the Regulations" in Appendix IV – and therefore Colleges should exercise caution when contemplating the accounting for, and disclosures associated with, a merger. The guidance and the discussions in Appendix IV are phrased in terms of companies legislation and should be read in that light.

3.61. The primary thrust of section 19 is that the acquisition (or "purchase") method must be used for all business combinations, except for group reconstructions (for which merger accounting may be used) or for certain public benefit entity combinations. Section 34 applies to public benefit entities which involve an entity or part of an entity combining with another entity when combinations are at nil or nominal consideration which are in substance a gift, and combinations which meet the definition and criteria of a merger.

Colleges that are also limited companies cannot take advantage of the merger options in FRS 102. Reference should be made to Appendix IV (paragraphs A4.30 and A4.30A) of FRS 102, where the possibility of exercising the true and fair override is outlined (typically because it has been aligned with a group reconstruction).

3.62. Combinations that are in substance a gift are accounted for in accordance with Section 19 except that the excess/deficit of the fair value of assets received over the fair value of the liabilities assumed is recognised as a gain/loss in income and expenditure. This represents a change to the previous UK GAAP interpretation that was set out in earlier Handbooks, allowing a "true and fair override" to take the balance straight to reserves. This would be the case in "type B" combinations where one College transfers its assets and liabilities to the other and no new corporation is formed. Colleges that previously included a negative goodwill balance instead and amortised this over an estimated useful economic life, should now recognise that balance in the year of the gift.

3.63. When accounting for a combination that does not meet the criteria for a merger (see below), then the assets and liabilities of the entity that is dissolving will need to be recognised at fair value on "acquisition". In practice this will make little difference to most of the current assets and liabilities, though there may be differences to consider in particular for:

- Land and buildings; and
- Pensions liabilities.

3.64. Combinations that are mergers result from the creation of a new reporting entity formed from the combining parties and in which no party of the combination obtains control over the other or is otherwise seen to be dominant. This would likely (but not necessarily) be the case for “type A” combinations and may extend to “type B” combinations as well, depending on the assessment of the criteria. For a merger to be apparent, the following needs to be satisfied:

- No party to the combination is portrayed as the acquirer or acquiree;
- There is no significant change to the classes of beneficiaries; and
- All parties to the combination participate in establishing the management structure of the combined entity.

3.65. Regardless of which model is selected as part of the combination process, Colleges should review the criteria against their positions to be able to agree the appropriate accounting treatment. The marketing messages employed, the branding, the language in the consultation documents and the relative financial strengths will all provide evidence as to which accounting methodology should be employed. No individual criterion is definitive though some will provide a greater weighting than others – a very large financially robust College combining with a much smaller, financially weak College, will be more likely to be accounted for as an acquisition regardless of the use of the word “merger” in all the marketing communications. A College that does not transfer over a significant proportion of the College leadership team or the Governing Body to the new entity, could also be seen as the “acquiree” in accounting terms.

3.66. It should be noted that the dissolving College is by definition, NOT a going concern in accounting terms. The same applies to a Sixth Form College that is academising. Given that most of the assets and liabilities are being preserved by being transferred into either the other College or a new academy entity, then few adjustments would be expected when preparing the accounts on a basis other than going concern (often referred to as “break up basis”, but not referred to such under FRS 102). There are however some key areas to

consider and the exact process behind when these changes will occur (including whether they could be avoided if the combination does not take place) will determine which entity has to deal with the adjustments:

- Loan breakage costs
- Crystalisation of pensions liabilities
- Changes in zero rated status of buildings because of changes of use etc

3.67. In most cases the determination might be that these are conditional on the "merger" or academisation taking place and are therefore a merger/acquisition adjustment.

3.68. When accounting for a merger the carrying value of the assets and liabilities are not adjusted to fair value, with the only adjustments being made to ensure uniformity of accounting policies. Any merger costs should be charged as an expense in the period, as part of the profit and loss of the combined entity at the effective date of the group reconstruction.

3.69. The results and cash flows of the combining entity are brought together into the financial statements of the newly formed entity from the beginning of the financial period when the merger occurs.

Corresponding figures should be restated to show the effect of the combination.

3.70. There are a number of disclosures to be made in the accounts when using the merger accounting approach, including:

- Name and description of the combining entities and the date of the merger;
- Analysis of the current year's total comprehensive income to indicate the amounts relating to the newly merged entity for the period after the date of the merger and the amounts relating to each party up to the date of the merger;
- An analysis of the previous year's total comprehensive income between each College;
- Aggregate carrying value of the net assets of each College at the date of the merger; and

- The nature and amount of any significant adjustments to align accounting policies and otherwise arising as a result of the merger.

3.71. Colleges are reminded that the requirements of the Education and Skills Funding Agency are that where a corporation is being dissolved, then it is the responsibility of either the new corporation (the type A combination) or the continuing corporation (the type B combination) to ensure that the audited financial statements of the dissolved corporation(s) are submitted to the main funding body within **five months** of the dissolution (see https://www.gov.uk/guidance/financial-accountability-arrangements-for-colleges-planning-a-merger for further details).

Matters to consider in advance of merger

3.72. An increasing number of Colleges are either merging with other Colleges or planning to become academies. There are a number of things to consider in this including the need to:

- engage with the auditor(s) to discuss accounting and audit requirements (including the regularity engagement)
- engage with the ESFA to confirm whether they give permission to extend their accounting period if appropriate
- commission valuations as needed (e.g. fixed assets, pensions, goodwill)
- prepare prior period comparatives as needed
- prepare for the handover of records

3.73. The ESFA has published their arrangements for Colleges approaching a merger deadline (https://www.gov.uk/guidance/financial-accountability-arrangements-for-colleges-planning-a-merger). These arrangements include guidance for Colleges that need to extend their accounting periods because the merger date is not co-terminus with 31st July.

3.74. The ESFA will allow certain Colleges to extend their accounting period prior to a merger or becoming an academy. The College will need to confirm:

- the Articles of Government do not prohibit an extended accounting period
- audited accounts will be submitted to ESFA by the usual deadline (normally the 31st December following the year end but see also 4.71 above)
- unaudited finance record will be submitted for the year ending 31 July 2017 to ESFA by the usual deadline

3.75. In addition, the College must demonstrate that they have an achievable accounts production timeline. As part of the approvals process, Provider Risk and Assurance from the ESFA will contact the external auditor to confirm the timeline includes adequate time for the audit.

3.76. Particular challenges may be encountered in obtaining the necessary confirmations of income from the ESFA where the accounting period does not end with the 31st July and this should be discussed with the ESFA at the earliest opportunity.

Employee benefits (pension schemes and holiday pay provisions)

3.77. Many of the provisions of section 28 of FRS 102 regarding Employee benefits will be familiar to Colleges. There are however some key differences to the previous UK GAAP which will be explained here.

3.78. Employee benefits are split into 4 categories:

- ***Short-term benefits*** – employee benefits (excluding termination payments) which are to be settled in full within 12 months of the year-end. These would include:
  - Wages, salaries and social security benefits;
  - Paid annual leave (holiday pay) and sick leave (and required to be presented as a liability due within one year by FRS102.28.6);
  - Profit-sharing and bonuses; and
  - Non-monetary benefits (e.g. company cars) for current employees.
- ***Post-employment benefits*** – employee benefits that are payable after the completion of employment (and do not meet the criteria for termination or short-term benefits). Captured here would be the typical pension scheme arrangements found in most Colleges including the TPS and the LGPS.

- ***Termination benefits*** – employee benefits provided in exchange for the termination of an employee's employment
- ***Other long-term employee benefits*** – employee benefits which do not meet the above criteria for short-term, post-employment or termination.

3.79. To a large extent, the majority of the presentation and disclosures associated with the above will already be included in most Colleges' financial statements through their implementation of FRS 17 under the previous UK GAAP. The main differences under FRS 102 are:

- ***Holiday pay*** – under previous UK GAAP this was not required and was typically not accounted for unless an organisation was for example contemplating a sale or was in financial difficulty and therefore the "going concern" basis of accounting was not appropriate. Under FRS 102 however a provision is required to be recognised.

  Colleges will derive a provision for the calculated liability which can be based on a number of simplifying assumptions and does not have to be made on a line by line, employee by employee basis (unless there are electronic records in place which easily facilitate that perhaps). The provision needs to be materially correct and able to stand up to audit scrutiny – Colleges should discuss their methodologies with their professional advisers.

  Colleges should be recalculating the provision at each financial period end, updating the assumptions and base data as required, and considering whether any movements in the provision are material and should be recognised in the Statement of Comprehensive Income.

- ***Actuarial gains and losses*** are now recognised in other comprehensive income whereas they were previously recognised in the Statement of Total Recognised Gains and Losses.

- ***Pensions interest cost under defined benefit schemes*** – under the previous UK GAAP this was calculated as the net of the interest costs and the expected return on assets. Under FRS 102 this is now calculated using the discount rate applied to the opening net pension liability and will generally produce a figure that is higher than that found under the previous UK GAAP. The net liability will not

change and hence the balancing adjustment will be made in the actuarial gains or losses recognised in the year in the Statement of Comprehensive Income.

Colleges will be provided with the figures required by their scheme actuaries in most cases and will need to consider the impact of the changes on any relevant banking covenants and on key stakeholders.

- ***Agreements to fund multi-employer scheme deficits*** are now recognised as liabilities for the contributions payable that arise from the agreement (to the extent that they relate to the deficit). Previously this was not specifically addressed and as a result generally not recognised. For most Colleges this will have little practical difference (the main pension scheme deficit being in relation to the LGPS which is accounted for as a defined benefit pension scheme and therefore no further liability is recognised) though, alongside the new requirements to present group plans on at least one balance sheet, if any Colleges do have other pension liabilities such as USS (where an agreement has been entered of how the deficit will be funded), then there may be some additional liability recognition to take into account.

  The existing accounting for the Teachers' Pension Scheme did not change as the new rules apply only to funded schemes and the TPS is at present an unfunded, notional, scheme valuation.

- ***Balance sheet presentation*** – whilst the majority of the extensive notes required are unchanged from those required under FRS 17 (and Casterbridge College has an example of the revised disclosures), the key change is that Colleges can no longer display a separate pension reserve on the face of the balance sheet. The net Income and Expenditure reserve will be included but without the additional presentation of before and after accounting for the pensions reserve. This will be important for colleges whose net Income and Expenditure reserve is small or even negative once the pension reserve was deducted under the previous UK GAAP and will need explaining to key stakeholders.

Joint venture accounting

3.80. A joint venture is a contractual arrangement whereby two or more parties ("venturers") undertake an activity subject to joint control, being the contractually agreed sharing of control which exists only when the financial and operating decisions require the unanimous consent of the parties sharing control. Under FRS 102, there are three forms of joint ventures; jointly controlled operations, jointly controlled assets and jointly controlled entities. Asa reminder, under previous UK GAAP there were basically only Joint Ventures (JVs) and Joint Arrangements that are Not Entities (JANEs), with the definitions not being conditional on whether an entity existed or not.

On balance, there are no major changes to the accounting for joint ventures in their various guises though there will be an increase in the level of disclosures required in certain instances.

3.81. ***Jointly controlled operations*** involve the use of assets and other resources of the venturers rather than the establishment of an entity. Each venturer uses its own assets and incurs its own expenses and liabilities and raises its own finance which represents their own obligations. The venturer recognises in its financial statements its share of income, the assets it controls and the liabilities and expenses it incurs.

3.82. ***Jointly controlled assets*** exist where the venturers exert joint control over one or more assets contributed to, or acquired for the purpose of, the joint venture's activity. Each venturer recognises in its financial statements:

- its share of the jointly controlled assets and any jointly incurred liabilities;
- liabilities that it has incurred;
- income from sale or use of its share of the output of the joint venture together with its share of expenses incurred by the joint venture; and
- any expenses it has incurred in respect of its interest in the joint venture.

3.83. ***A jointly controlled entity*** is a joint venture that involves the establishment of an entity (unlike the two previous definitions) in which each venturer has an interest. A venturer which is not a parent

shall account for jointly controlled entities using either the cost model, the fair value model or by measuring it at fair value with changes recognised in profit or loss for the period. In practice it is unlikely that many Colleges will be adopting the Fair Value approach unless the investments are held as an investment portfolio.

3.84. Colleges should consider all of their collaborative activities and consortia and identify whether they are jointly controlled operations, jointly controlled assets or jointly controlled entities. Examples may include joint teaching arrangements, joint research contracts and shared service arrangements.

3.85. A number of Colleges have arrangements with non-educational institutions which may include the sharing of resources, including buildings and employees, and the delivery of joint activities such as teaching and research. Colleges should have regard to whether these arrangements include jointly controlled operations, jointly controlled assets as well as having regard to other topics such as leasing and revenue recognition when accounting for these arrangements.

Going concern

3.86. The going concern related disclosures have become more important in the past few years as funding has tightened and costs have escalated. It has assumed a far greater focus with press interest in the financial stability of Colleges and the new Insolvency regime which will be in place next year. The hardening of the attitudes of the lending banks has led to a greater focus on bank loan covenant compliance and indeed in some cases to the renegotiation of facilities. The likelihood of a merger or other combination with another College or of the academisation of a Sixth Form College will also raise the importance of the appropriate disclosures for going concern.

3.87. The Direction explicitly requires a narrative discussion of the assessment of whether the College is a going concern and must set out the supporting assumptions, the qualifications to those assumptions, and any mitigating actions. This needs to be a comprehensive and honest assessment of the College and the risks and uncertainties it faces.

3.88. The need to include disclosures around the going concern assumption in preparing the financial statements is not new. On 15

October 2009 the Financial Reporting Council (FRC) issued *Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009*, (https://www.frc.org.uk/FRC-Documents/FRC/Going-Concern-and-Liquidity-Risk-Guidance-for-Dire.aspx) which superseded the 1994 guidance *Going concern and financial reporting: Guidance for directors of listed companies registered in the UK*, the November 2008 U*pdate for Directors of Listed Companies: Going Concern and Liquidity Risk* and the March 2009 *Update for Directors of Smaller Companies.* The guidance continued the point that even where uncertainties are less than "material uncertainties" or "significant doubt" (and hence there is no auditor's emphasis-of-matter in the opinion), financial statements disclosure of those uncertainties is still required (the November 2008 *Update* example disclosures were retained). The guidance also referred specifically to the need for this disclosure to explain the conclusion on going concern and how it had been reached, and included a number of examples written according to various scenarios.

3.89. In June 2012 Lord Sharman reported his Panel's recommendations on going concern reporting ("Going Concern and Liquidity Risks: Lessons For Companies and Auditors") and in June 2013 the FRC issued new proposals as part of its response to those recommendations (replacing the proposals issued in January 2013 which were seen as setting too high a hurdle for companies to be able to state that they were an "unqualified going concern"). These proposals along with subsequent consultations, including those relating to unlisted companies, have made their way into documents such as the UK Corporate Governance Code.

3.90. Whilst the guidance is primarily written for listed companies, the basic principles remain sound and applicable to FE Colleges. Casterbridge College includes some basic (entry level) disclosures in the Accounting policies section for an uncomplicated College which should be expanded upon as required. Key amongst these are that the Board of Governors should have carried out a robust assessment of the principal risks facing the College, which will include solvency and liquidity risks. Currently all Colleges have participated or are participating in Area Based Reviews which will be a significant factor for some to include in the assessment, particularly where a change of control may be one of the outcomes. As discussed below, the degree of certainty about whether a proposed merger will proceed or not will also impact on the level of disclosures required and on the accounting basis adopted.

3.91. On the 18th April 2016, the FRC issued further guidance for directors of companies which brings together the requirements of company law, accounting standards, auditing standards, other regulation and existing FRC guidance relating to the going concern basis of accounting. The guidance aims to assist directors of companies that do ***not*** apply the UK Corporate Governance Code in assessing:

- the going concern basis of accounting, material uncertainties, solvency and liquidity risk;
- the periods of assessment; and
- the relevant disclosure requirements.

"Clear & Concise" reporting is paramount and when thinking about disclosures, [directors] are encouraged to consider the application of materiality in providing company-specific information. The guidance is available at https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Going-Concern-Basis-of-Accounting.pdf

3.92. Given the importance of the disclosures around going concern, Colleges should consider this additional guidance alongside the basic disclosures included in Casterbridge College and tailor them accordingly. The relevant factors need to be set out clearly and in the context of the individual College as well as the sector as a whole. Key areas to cover will include:

- Current trading position
- Future trading plans and recruitment forecasts for the next 3 to 5 years depending on the robustness of the plans in place
- Reference to any external intervention such as Notices of Concern, Ofsted inspection results, and Recovery plans, along with progress against any objectives or milestones set up
- Status of bank finance and compliance (current and forecast) with any covenants
- Status of pension liabilities which may crystallise on a cessation of trading or transfer to another entity
- Cash flow forecasts (monthly and for more than just the next financial year)
- Other Key Performance Indicators and the College's achievement against those

Where a merger is planned for some point after the year end, an assessment as to whether or not the transaction is likely to proceed will be necessary to establish the accounting basis to be applied. For Colleges intending to dissolve and pass their assets and liabilities to another FE College – or indeed a Sixth Form College intending to academise and join an Academy Trust or Multi Academy Trust – this will be important as if the conclusion is that it will proceed and in a timescale that is within 12 months of the date of approval of the financial statements, then the going concern basis will not be appropriate.

Related parties

3.93. Section 33 of FRS 102 and Section 25 of the 2015 FE HE SORP deal with related party disclosures. There is an exemption from disclosing transactions that are derived from dealings with government departments and agencies under paragraph 25.6 of the FEHE SORP, however, the financial statements still require the disclosure of the total funding body grants on the face of the Statement of Comprehensive Income and in the relevant notes to the accounts need to reflect the requirements of FE HE SORP paragraph 17.17, therefore the narrative in Casterbridge College reflects this accordingly.

The key points in the context of related party disclosures are:

- The name of the related party no longer needs to be disclosed, only their relationship to the College
- The total of key management compensation (see below) needs to be disclosed under FRS 102 paragraphs 33.6 to 33.7
- FRS 102 paragraph 33.13 clearly states that a College "shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated." This was hinted at in FRS 8 previously and noted as being unlikely to be common in practice, though most companies included such statements.

Gender pay gap reporting

3.94. The Equality Act 2010 (Gender Pay Gap Information) Managing Gender Pay Reporting Regulations 2017. The obligations apply if

employers have a "headcount" of 250 or more employees on the snapshot date of 5 April of a given year for businesses and charities (31st March for public sector organisations). Organisations must publish within a year of the snapshot date. Further Education Colleges are listed in Schedule 2 of the Regulations and therefore are deemed a public-sector organisation for this purpose.

https://www.gov.uk/guidance/gender-pay-gap-reporting-overview

3.95. From 6 April 2017 organisations meeting the criteria will be required by law to publish the following four types of figures annually on their own website and on a government website:

- Gender pay gap (mean and median averages)
- Gender bonus gap (mean and median averages)
- Proportion of men and women receiving bonuses
- Proportion of men and women in each quartile of the organisation's pay structure

3.96. Colleges may want to consider whether this information would also usefully be included within their own Members/Strategic Reports, though this would not remove the requirement to separately publish the results on the College website or the Government website. Early adoption is encouraged given the prominence that this area is being given in government.

Prevent Duty

3.97. Whilst not a mandatory requirement for the annual accounts, Colleges may wish to consider making reference to their obligations under the February 2015 Counter-Terrorism and Security Act. Colleges could include a simple statement in their members' Report such as:

"In July 2015 a legal duty was placed on colleges, amongst others, to show "due regard to the need to prevent people from being drawn into terrorism". The College has put in place certain safeguards in recognition of this and included the matter on its risk register so that it can be monitored regularly by the Corporation."

2-5 Stedham Place, London WC1A 1HU
T: 020 7034 9900 E: enquiries@aoc.co.uk www.aoc.co.uk

@AoC_info Association-of-Colleges