SFC Call for information

Adjusted Operating Position calculation

Issue date: 24 September 2019

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Summary: To ask colleges to provide the draft Adjusted Operating Position calculation prior to finalising their 2018-19 accounts.

FAO: Principals / Chairs / Finance Directors / Board Secretaries of Scotland's incorporated colleges.

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Adjusted Operating Position calculation

Purpose

1. To ask institutions to provide the draft Adjusted Operating Position calculation prior to finalising their 2018-19 accounts. This Call for Information incorporates detailed guidance for completing the calculation and addresses a recommendation arising from the Audit Scotland report Scotland's Colleges 2019.

Background

2. Guidance on completing the Adjusted Operating Position (AOP) calculation has been provided to enable an assessment of the underlying financial strength of an institution and also to provide figures which are readily comparable across institutions. The adjustments made are intended to exclude those items which are exceptional, outwith the control of the institution or due to the specific impact of the institutions being part of government accounting. The template adjustments have been agreed with Audit Scotland and therefore should not be amended or added to by institutions. The calculations will form part of the reporting to the SFC Finance Committee and will also feed in to Audit Scotland Overview reports.

Completion of the workbooks

3. Workbooks, incorporating pre-populated data, have been issued to each institution. There are two spreadsheets in the workbook – entitled 'Source Data' and 'Adjusted Operating Position'. Institutions are required to complete the 'Source Data' spreadsheet Columns C and D with the appropriate figures from the annual accounts. Columns E and F should be completed with the draft published accounts page reference and note reference so that the figures can be readily identified in the accounts. Institutions may need to expand disclosures in some of the notes to ensure the AOP figures are identified.

4. Completion of the source data will automatically populate the 'Adjusted Operating Position' spreadsheet Columns E and F. Columns C and D have been pre-populated by SFC. 2017-18 comparatives included in the 2018-19 accounts should be those agreed by SFC unless there has been a prior year adjustment in any of the SOCI figures. Where the figures have changed for the comparatives, an explanation should be provided as to why this has happened.

Explanation of adjustments on Source Data sheet

Lines 6 and 7: Depreciation and deferred grants

5. An adjustment is made for institutions to add back depreciation charges in recognition of the fact that they have a non-cash budget for depreciation from the Scottish Government. The amount added back will be offset by the amount of deferred grant credited in the SOCI for the year.

Line 8: Exceptional non-restructuring costs

6. Institutions should enter here any exceptional costs charged to the SOCI “above the line” (e.g. impairments). Institutions should only include items which are clearly identified as exceptional in the accounts (i.e. included as a separate line in the SOCI).

Line 9: Pension adjustment - Net Service cost (FRS 102 adjustment)

7. This adjustment will be the amount identified as the FRS 102 adjustment in staff costs (i.e. the amount charged over and above contributions paid in year).

Line 10: Pension adjustment – Net interest cost

8. This is the net of interest earned on pension assets offset against interest cost on pension liabilities. This will generally be the amount shown as “Net pension interest” in the interest payable note in the accounts.

Line 11: Early retirement provision – year end revaluation charged to SOCI.

9. The liability for early retirements will be reflected as a provision in the accounts and will be accounted for as such – i.e. provision set up on Balance Sheet at outset and payments offset against the balance sheet liability. The provision will be increased as new liabilities are added and decreased if liabilities cease. At the end of each year, the liability will be revalued either by an actuary or by using SFC provided tables. It is this year-end adjustment that should be recorded in the AOP as this is deemed to be largely outwith the control of the institution. Only the amount charged to the SOCI “above the line” for revaluation should be included. Institutions should ensure that the early retirement provision note in the accounts shows the revaluation as a separate line.

Line 12: Donation to Arms-Length foundation (ALF)

10. As ALF donations can only be made from surpluses generated by institutions, this is added back to show the true operating surplus made in the year prior to the transfer. This should be shown separately in the SOCI or in the notes to the

accounts.

Line 13: Non-Government capital grants credited to SOCI (e.g. ALF capital grant)

11. Capital grants from ALFs and other non-government sources which have been credited to the SOCI in the year should be entered here. As there are no costs against this income, the adjustment is required to reduce the surplus accordingly.

Line 14: Exceptional income (if disclosed as exceptional in accounts)

12. Any income which has been highlighted as exceptional in the year should be entered here. The accounts must reflect the treatment as exceptional – i.e. by having separate disclosure in the SOCI.

Line 15: Cash Budget for Priorities (CBP) allocated to non-SOCI payments e.g. loan repayments and other balance sheet items

13. An adjustment should only be made for Balance Sheet items funded from CBP – i.e. the item should appear as a separate item in the CBP table in the accounts. This adjustment should include any non-revenue payments funded from CBP and is intended to take out the surplus element of having CBP income not matched by any costs in the SOCI.

Line 16: NPD income applied to reduce NPD balance sheet debt

14. Where NPD grant income credited to the SOCI has been applied in reducing a balance sheet liability (i.e. no matched costs in the SOCI) it should be included here. Again this is to take out the element of surplus in the SOCI due to the income being used for capital purposes.

Review by SFC

15. To ensure consistency of completion of AOP across institutions, we are asking each institution to submit its draft AOP table to SFC, together with a draft of the accounts, prior to finalising the financial statements. Assigned colleges should copy in their Regional Strategic Body. Institutions should allow one week for SFC to complete the review and get back to the institution with any comments. The draft tables should be sent to isg-returns@sfc.ac.uk and also copied to the Senior Financial Analyst (SFA) responsible for your institution. Details of the Analysts responsible for each institution are available on the SFC website.

16. Please liaise with your SFA to check availability and agree timescales.

Approval by SFC

17. SFC will confirm in writing to you the final agreed table for the adjusted operating position, to be used in your published accounts.

Further information

18. For further information, please contact Andrew Millar, Assistant Director, email: amillar@sfc.ac.uk, tel: 0131 313 6538; or Dorothy Carson, Senior Financial Analyst, email: dcarson@sfc.ac.uk, tel: 0131 313 6607; or Ann Robertson, Senior Financial Analyst, email: arobertson@sfc.ac.uk, tel: 0131 313 6689.

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