Accounting for Further and Higher Education
Statement of Recommended Practice

What's Changed?

FRS102 and the new SORP will result in a number of major changes to the way financial performance, assets and liabilities are presented in our financial statements. The most material are:

Terminology	Current primary financial statements comprise: Income & Expenditure Account, Statement of Recognized Gains and Losses (STRGL), Balance Sheet and Cash Flow Statement. The new primary Statements are: **Statement of Comprehensive Income**, **Changes to Reserves and Funds**, **Statement of Financial Position** (ie balance sheet) and Cash Flow Statement.
Endowments and Donations	Currently new endowments are credited to the balance sheet via the STRGL. The new revenue recognition rules mean that almost all endowments will be credited to the Income Statement and then transferred to restricted reserves (which will be called either endowment funds or restricted reserves depending on their nature). **The new revenue recognition rules will result in more volatile surplus/deficit for the year being reported.**
Capital grants	The revenue recognition rules will result in most capital grants being credited to the Income Statement, rather than to deferred capital grants on the balance sheet. Deferred capital grants recorded on balance sheets, and their subsequent release to the I&E Account, will no longer occur. **This change will result in more volatile surpluses and deficits.** **Future Income Statements will no longer benefit from the credit arising from the release of deferred capital grants (currently c£xm per year), which will reduce on-going reported surpluses.**
Employee benefits	There are two new requirements: Deficit recovery plans for multi-employer pension schemes, such as USS [and/or SAUL], need to be recognised as a provision for a

liability. This change will mean that the initial liability will be a charge to the Income Statement, then recorded as a liability on the balance sheet and unwound over time as the liability is discharged. Every triennial valuation will result in the liability being adjusted up and down with consequent debits or credits appearing in the Income Statement to adjust the value of the provision recoded on the balance sheet. This is likely to have a material impact on financial statements.

The requirement to account for deficit recovery plans of multi-employer schemes will distort reported surpluses/deficits for the year. It could also materially increase reported liabilities and hence reduce net assets.

Note that the provision for multi-employer deficit recovery plans is not the same as the actuarial deficit reported for other schemes such as support staff scheme which are currently 'on balance sheet'. Conceptually these are different figures and the accounting is different for these two types of scheme. This will add to the confusion of how pension funds are reflected in our Financial Statements and make comparing different HEIs difficult. Unfortunately, this is an issue the SORP cannot address as the SORP cannot over write accounting standards set out in FRS102.

The second new requirement is that untaken annual leave, or other contractual leave entitlements such as sabbatical leave, will need to be recorded as a liability at balance sheet date. This change will result in a one-off charge to the Income statement as it is not anticipated that this liability will change materially year-on year.

Service concessions

Where student accommodation arrangements have been entered with third parties, such as UPP, these are currently reported 'off-balance sheet' provided current UK GAAP rules are satisfied relating to the balance of risk and reward. FRS102 takes an alternative approach based on control.

This change is likely to result in some of the sectors student accommodation arrangements with third parties coming back on-balance sheet, as both an asset and a liability – accounted for as if they are finance leases. However, there are two important caveats:

- the value of any asset/liability is assessed as the present value of any <u>potential</u> payments made under an occupancy guarantee. This results in a rather odd position that the value of the asset (and liability) is likely to be less than its fair value as occupancy guarantees tend to be for less than 100% of room availability.

- In cases where annually renewable nominations are made these are not considered to be long-term guarantees; hence these arrangements will remain ‘off-balance sheet’ even though such arrangements may be classed as service concession arrangements.

Fair value changes

Changes to the value of a number of assets and liabilities recorded on the balance sheet (or Statement of Financial Position) at fair value will be a direct charge (or credit) to the income statement:

- Changes to value of endowment funds
- Changes to the value of other investments
- Changes to the fair value of interest-rate swaps

This change will result in more volatile surpluses and deficits.

Property, Plant and Equipment

Property, plant and equipment is the new name for ‘tangible fixed assets’. There aren’t significant accounting changes under FRS102. However, we will have to make a decision about our accounting policy:

- Re-value [*or carry on revaluing*] our assets, or
- [*We can take the opening balance sheet value as a ‘deemed cost’ and stop revaluing our assets*]

Disclosures

FRS102 has introduced a minor new disclosure requirement that might attract some FOI and press attention. It is a requirement to disclose “*key management personnel compensation*” in total, not in detail. The SORP proposes this covers the cost of remuneration of SMTs. This disclosure is in addition to those required under Accounts Directions in relation to the Vice-Chancellor’s remuneration and the number of high earners.