

DOCUMENT RESUME

ED 454 412

CE 081 921

TITLE Costing, Budgeting and Financial Reporting: A Report on Current Practice in the Further Education Sector. Research Report.

INSTITUTION Learning and Skills Development Agency, London (England).

ISBN ISBN-1-85338-690-1

PUB DATE 2000-00-00

NOTE 21p.; Questionnaire prepared with the College Finance Directors Group (CFDG). Formerly Further Education Development Agency (FEDA).

AVAILABLE FROM Learning and Skills Development Agency, Citadel Place, Tinworth Street, London SE11 5EH, United Kingdom. Tel: 020 7962 1066; Fax: 020 7840 5401; Web site: <http://www.LSagency.org.uk>. For full text: <http://www.LSagency.org.uk/pubs/dbaseout/download.asp?code=ISBN1853386901>.

PUB TYPE Numerical/Quantitative Data (110) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC01 Plus Postage.

DESCRIPTORS Accounting; *Adult Learning; *College Programs; *Educational Finance; Educational Practices; Foreign Countries; Information Utilization; Institutional Research; Money Management; National Surveys; Postsecondary Education; *Program Budgeting; *Program Costs; Questionnaires; Recordkeeping; Reports

IDENTIFIERS *Financial Reports; *United Kingdom

ABSTRACT

The approaches to costing, budgeting, and financial reporting being used in further education (FE) colleges in the United Kingdom as of autumn 2000 were examined through a questionnaire that was circulated to all finance directors in the FE college sector. Approximately one-third of the sector (144 FE colleges) responded. The responding FE colleges were broadly representative of the sector. Nearly all colleges reported using delegated budgets. Although the majority of FE colleges appeared to be making good use of costing and other financial information, significant variations in practice and room for improvement were identified. It was concluded that, although there is no single right approach to costing, budgeting, and financial reporting, many FE colleges could improve their practice by examining the range of approaches used in other colleges. The following are among specific strategies for FE colleges to consider: (1) produce management accounts at the cost center level on a monthly basis; (2) make greater use of zero-based budgeting; (3) provide regular income and expenditure reports for all course teams; (4) use course costing information based on frequently updated costing sheets; and (5) set guidelines based on minimum student numbers and other key indicators. (Contains 21 figures.) (MN)

Reproductions supplied by EDRS are the best that can be made
from the original document.

PERMISSION TO REPRODUCE AND
DISSEMINATE THIS MATERIAL HAS
BEEN GRANTED BY

L. Williams

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)

1

Costing, Budgeting and Financial Reporting

A report on current practice in the
further education sector

Research report

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

- This document has been reproduced as received from the person or organization originating it.
- Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

2

BEST COPY AVAILABLE

1921
ERIC
Full Text Provided by ERIC

Published by the Learning and Skills Development Agency (formerly FEDA)

Feedback should be sent to
Information Services, Learning and Skills Development Agency Publications,
3 Citadel Place, Tinworth Street, London SE11 5EF.
Tel: 020 7840 5302/4 Fax: 020 7840 5401
www.LSagency.org.uk

Registered with the Charity Commissioners

ISBN 1 85338 690 1

© 2000 Learning and Skills Development Agency

You are welcome to copy this report for internal use within your organisation. Otherwise, no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, electrical, chemical, optical, photocopying, recording or otherwise, without prior written permission of the copyright owner.

Contents

	Page
Executive Summary	4
Background	5
The Questionnaire	5
General Issues	6
Approaches to budgeting	8
Reporting Arrangements	10
Costing	14

Executive Summary

In October 2000 the Learning and Skills Development Agency (LSDA) and the College Finance Directors Group (CFDG) circulated a questionnaire to all college finance directors seeking information on their approaches to costing budgeting and financial reporting. Around one third of the sector (144 colleges) responded. The survey showed that the majority of colleges make good use of costing and other financial information, though there is significant variation in practice and seems to be scope for improvement.

The CFDG believes that there is no single right approach to these questions and each college needs to adopt the systems and procedures which best meet its own unique set of circumstances. Nevertheless the group feels that there is scope for more colleges to improve their practice by examining the range of approaches used in other colleges and in particular, where it is not their current practice, to consider:

- Producing management accounts at cost centre level on a monthly basis;
- Making greater use of zero based budgeting;
- Providing regular income and expenditure reports for all course teams;
- Using course costing information based on frequently updated costing sheets;
- Setting guidelines on minimum student numbers and other key indicators.

The CFDG also believes that while there is no one universal solution it is possible to be clear about key elements of best practice in the great majority of colleges. The group is therefore working with LSDA and FEFC to produce guidance in relation to costing and budgeting along the lines of its well-received *Guide to Management Accounts*. Feedback from readers of this report identifying areas where guidance would be useful will be welcome.

Comments on the report should be sent to Mick Fletcher at LSDA, either by email: mfletche@LSagency.org.uk or by post to Bishops Hull House, Bishops Hull Road, Taunton, Somerset, TA1 5EP.

Background

In autumn 2000 the Learning and Skills Development Agency brought together a group of practitioners from the College Finance Directors Group (CFDG) and finance specialists from FEFC, HEFCE and NAO to consider how best to help colleges improve their financial management. The context for the meeting included the recent review by the NAO entitled 'Managing Finances in English Further Education' which had concluded that further guidance was needed on course costing. The group also considered the work of the transparency review in higher education and the welcome given by the FE sector to the CFDG/Agency publication outlining good practice in management accounts.

The meeting agreed on a programme of work to be led by the Agency which is intended to produce guidance on a consistent approach to costing across the sector, together with training and support materials appropriate for different levels of management. The guidance is planned to cover costing, budgeting and financial information, and to be produced in a variety of formats. It is anticipated that the new Learning and Skills Council may wish to underline the importance of a consistent approach to financial management from the institutions for which it is responsible.

One starting point for the work programme was to benchmark current practice in colleges. The CFDG helped prepare a questionnaire which was circulated to finance directors in all colleges in England and Wales during October 2000. This report summarises the responses to the questionnaire and offers a commentary on current practice. In all 144 responses were received which represents around one third of the colleges in the sector.

The Questionnaire

The colleges responding to the questionnaire were broadly representative of the sector. The largest group were general FE and Tertiary Colleges (74%). Sixth Form Colleges (18%) formed a smaller percentage of the sample than they do of the sector. Some significant differences emerged between the responses of these two groups. The small number of specialist institutions responding (6%) reflects the small number of such institutions; occasionally their responses differed from the general pattern.

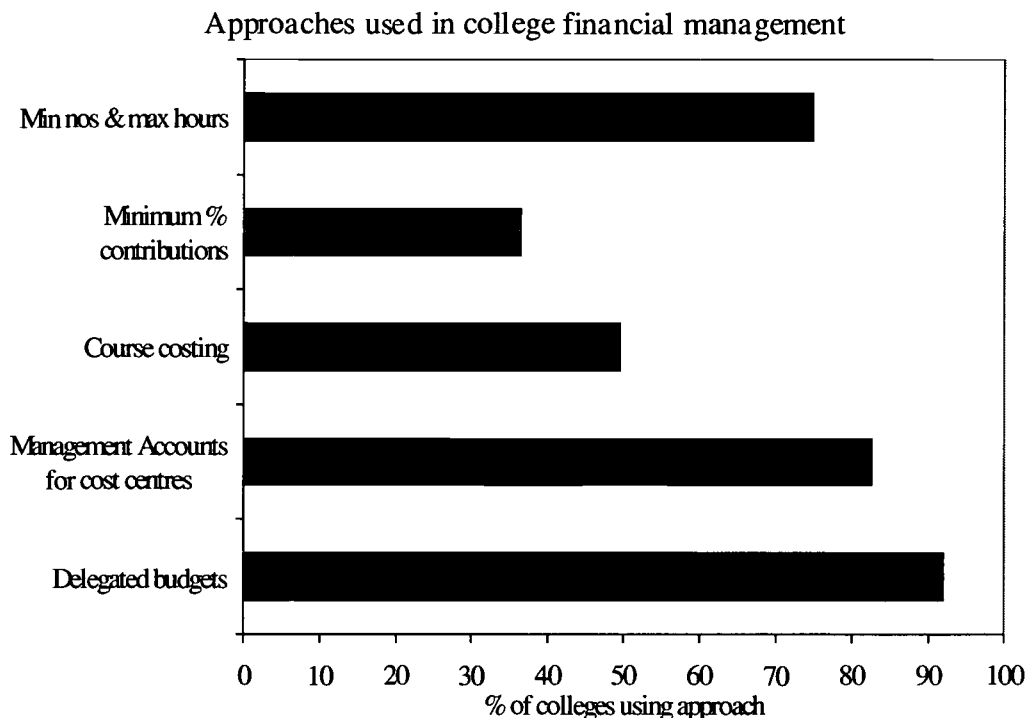
The responding colleges were also roughly grouped by size. Small colleges were defined as those with fewer than 300,000 funding units and large colleges as those with over 600,000. On the basis of these definitions 48% of colleges were classified as small, 39% medium and 12% large. Some differences did emerge in the responses of larger and smaller colleges but no strong pattern appeared. A copy of the questionnaire is attached as an appendix.

The questionnaire was organised into five sections. The first section looked at the overall approach adopted by the college to costing and its role in planning and budgetary control. Subsequent sections look at budgeting, reporting and costing in more detail and the final section examines the way in which colleges give guidance or benchmarks to internal units. This report follows the order of the questionnaire.

General Issues

Colleges were asked about their general approach to financial management and responses are summarised in Figure 1.

Figure 1:

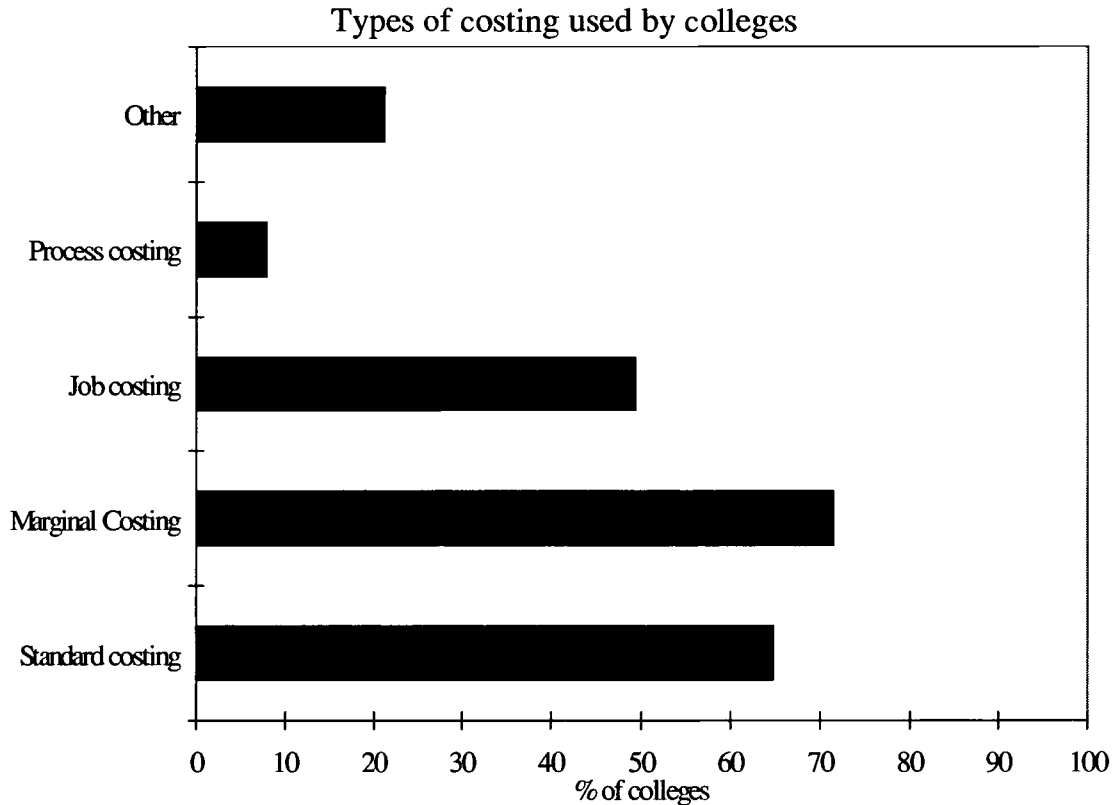


- Almost all colleges, and particularly general FE colleges, reported using delegated budgets (FE 97%, SFC 81%, Sp.72%).
- Four out of five colleges produce management accounts at cost centre level though again FE colleges are more likely than others (FE 90%, SFC 65%, Sp.60%).
- Exactly half of the sample report using course costing. Interestingly only 35% of SFCs but 80% of specialist institutions do so.
- Just over a quarter of colleges report a number of attempts to introduce a course costing system (Q17).
- Almost 40% of the sample set minimum contributions from academic areas but none of the SFCs did so.
- Three quarters of the sample produced guidelines on minimum student numbers but this masks big differences between the types of college. (FE 83% SFC 50% Sp 55%).

Some of these responses are surprising. The CFDG would see the production of accounts at cost centre level and issuing guidance on minimum hours and contributions from academic areas as aspects of good practice. The use of course costing and delegated budgets are also seen as useful management tools.

Questions were also asked about general approaches to costing and the responses are summarised in Figure 2. Once again the responses do not vary significantly with college size but they do vary by college type.

Figure 2:



- Two thirds of colleges report using standard costing but the percentage varies from 70% in FE to 44% of Sixth Form colleges.
- Around 70% of colleges of all types report the use of marginal costing
- Although half of those responding report the use of job costing, the proportion of Sixth Form colleges and specialist colleges is only 25% and 28% respectively. In the large college 75% use this approach.
- Fewer than 10% of colleges use process costing and those that do are all FE colleges
- Just over 20% of colleges use some other costing approach although a third of the specialist college respondents do.

The detailed responses underline the general concern that the use of costing is underdeveloped in colleges. There is however a need for more work to provide clear definitions of some of these approaches in the college context.

Approaches to Budgeting

The second set of questions probed college practices in respect of budgeting. The responses are summarised in Figures 3 and 4 below. College size does not seem to be a significant factor. College type on the other hand seems to influence the extent to which delegated units produced their own budgets but not the method adopted.

Figure 3:

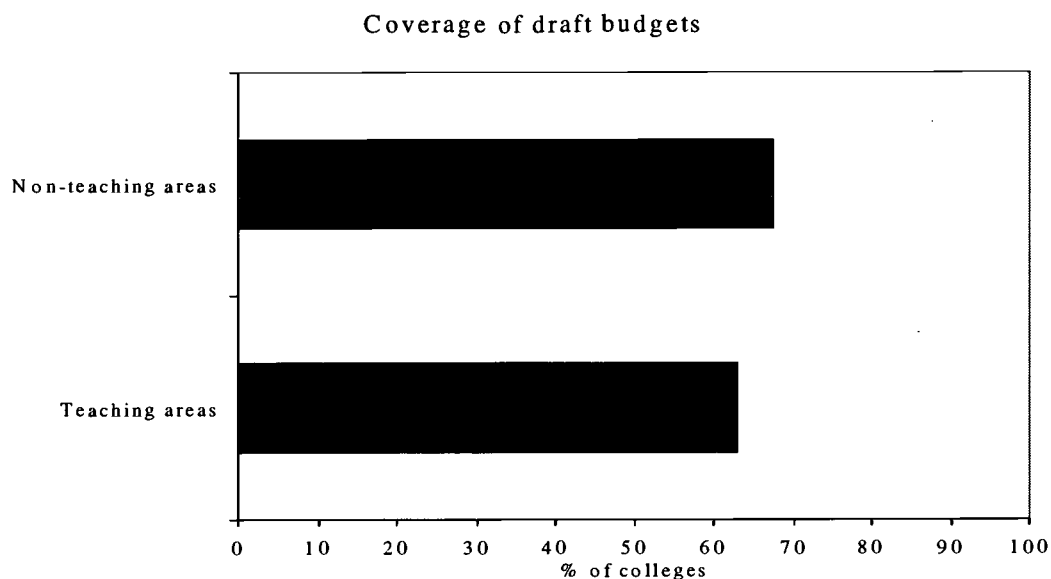
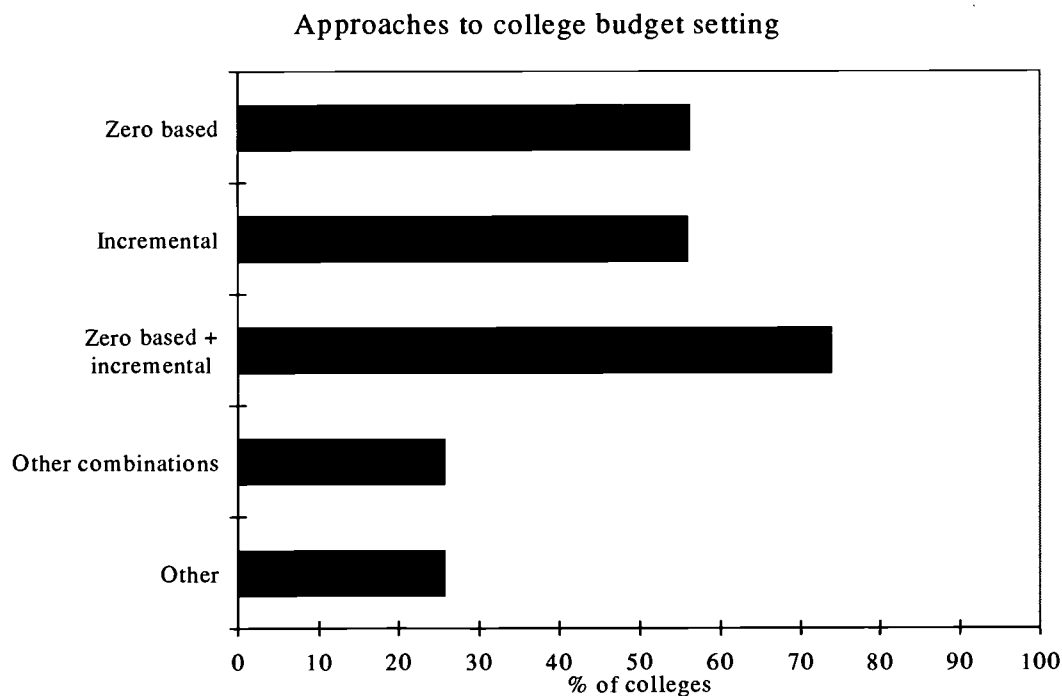


Figure 4:

- Around two thirds of colleges report that non teaching and teaching areas produce their own draft budgets – 64% for teaching and 68% for non teaching units.
- Nearly three quarters of general FE colleges report delegation of draft budgets compared with under a third of SFCs (FE 73% SFC 31% Sp 60%).



- Just over half (57%) of colleges report both incremental and zero based approaches to budgeting.
- Around three-quarters of colleges report that they use a combination of zero based and incremental budgeting.
- Around a quarter of colleges, but 37% of the specialist colleges, report that they use an ‘other’ method.

Approaches to budget setting were explored in more detail by asking how colleges approached various lines of income and expenditure.

- Zero based budgeting was the approach taken by half the colleges responding to handling FEFC income compared with 24% for New Deal and tuition fees.
- A zero-based approach was used for the staffing lines in 70% of cases compared to 40% of cases for most other cost heads.
- Colleges were most likely to report that they used a percentage increase to budget for tuition fees and most non-pay expenditures (45% as compared with 25% on the pay headings).

It is a matter of concern that zero based budgeting, which the CFDG would regard as good practice, is not used more widely. There is perhaps need for more careful definitions of what these terms mean in the FE context.

To explore the reasons for college budgeting practices in more detail respondents were asked, “*how difficult is it, in general, for teaching areas to estimate each line of income and expenditure*”. The responses, given on a five point scale where 1 equals very accurate and 5 equals low reliability are summarised in Figures 5 and 6. Taken overall the responses suggest that college staff operate in an environment with several important areas of uncertainty.

Figure 5:

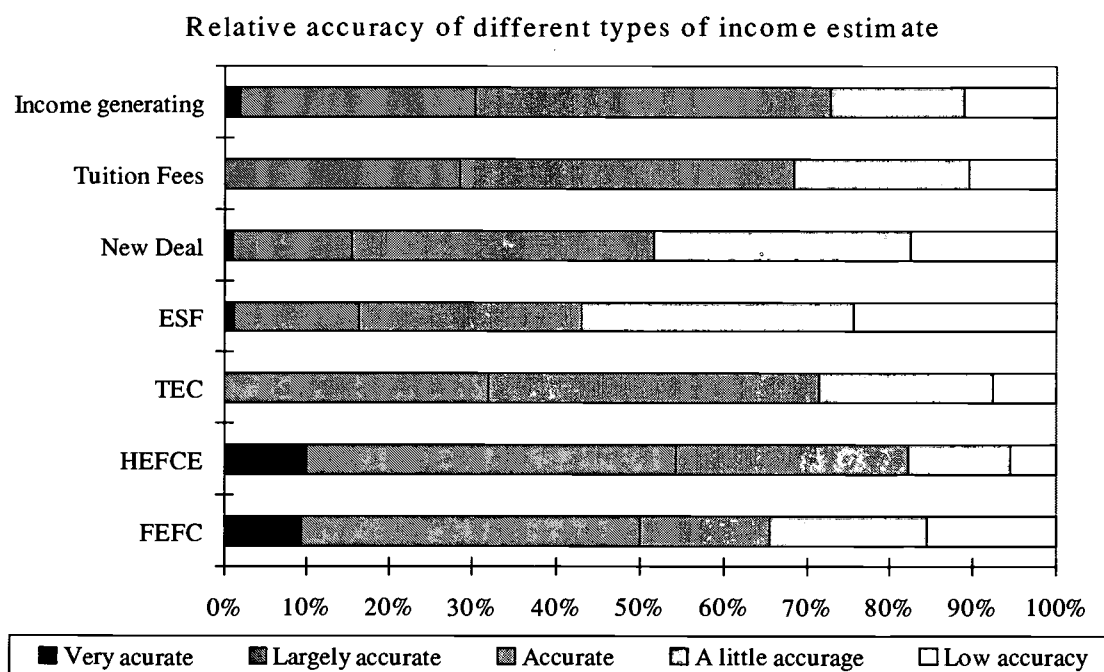
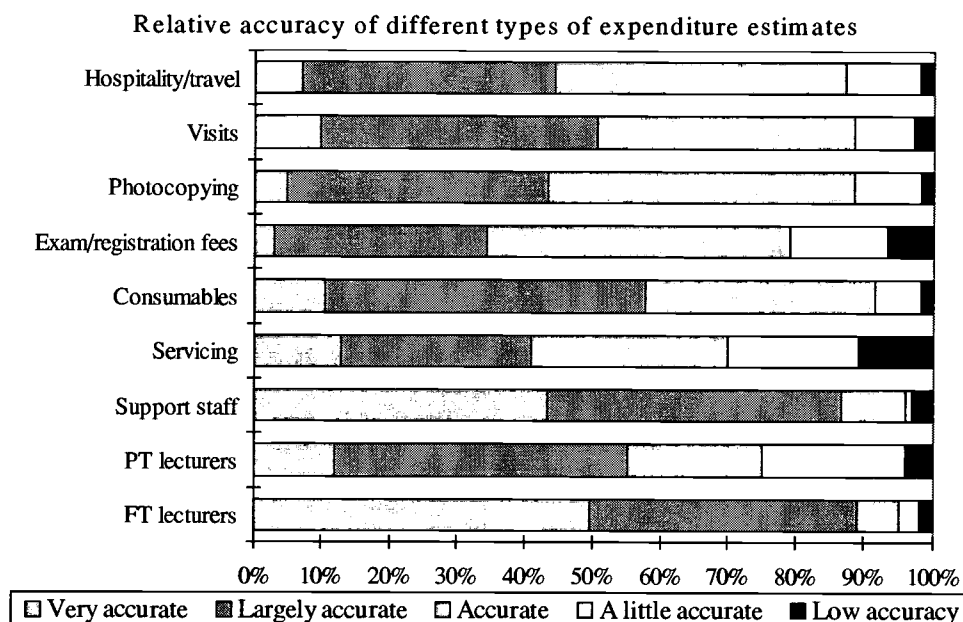


Figure 6:



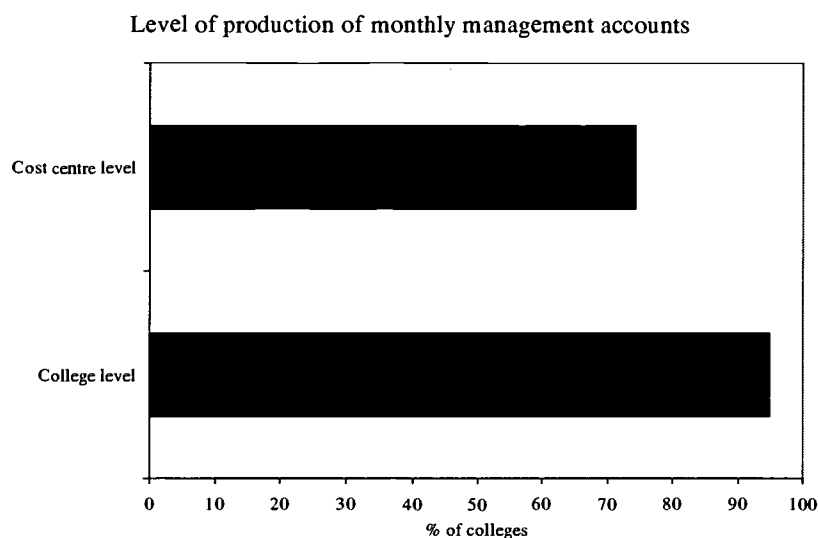
- While half of respondents feel that FEFC income can be predicted accurately or very accurately 15% see their estimates as having low reliability.
- Fewer than a quarter feel that new deal and ESF income can be predicted accurately and only 28% feel confident in predicting tuition fees.
- In terms of expenditure colleges see it as possible to estimate the costs of permanent staff with a high degree of accuracy (90% of cases 1 or 2).
- Fewer than half have the same degree of confidence in relation to non-pay heads and around 55% for part time teachers.

Reporting Arrangements

The next section of the questionnaire sought information about financial reports. Colleges were asked whether they produced monthly management accounts at college level, and at cost centre level each month. Figure 7 shows that the overwhelming majority produces monthly accounts and a clear majority do so at cost centre level.

- In 95% of cases colleges produce monthly accounts though this varies between 98% in FE and 84% in SFCs.
- Three quarters of colleges produce accounts at cost centre level but again this overall figure conceals differences by size and type (FE 82%, SFC 60%, Sp 50%, Large 82%, Medium 84%, Small 65%).

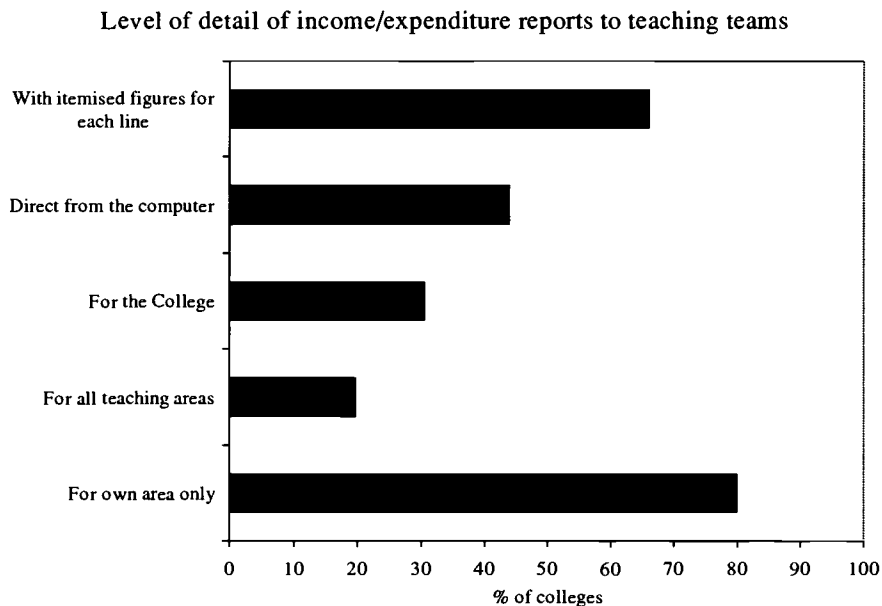
Figure 7:



The CFDG would see the production of monthly accounts at college level as essential and while it is reassuring to see that 95% of colleges provide this there must be concern about the others. The production of accounts at cost centre level is seen as good practice and further investigation is needed as to why many colleges do not do this.

Subsequent questions probed the detail of reports. The key results are summarised in Figures 8 and 9. In general:

Figure 8:



Four out of five colleges give teams a summarised income and expenditure account for their area.

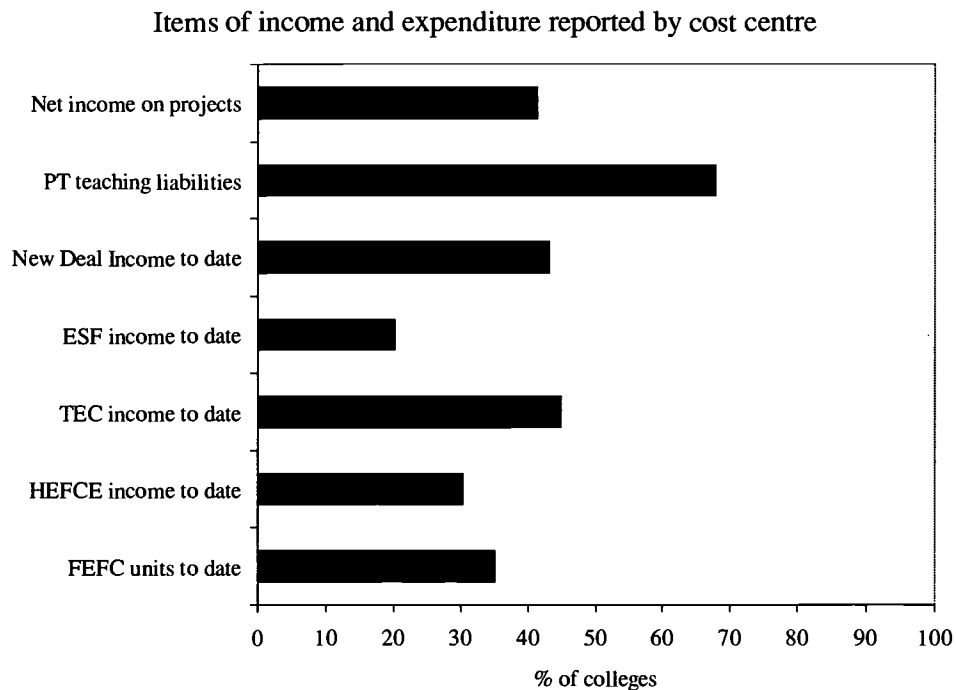
- Only a minority of colleges also provide teams with the accounts for other areas (20%) or the college as a whole (30%). FE colleges are more likely than the others to do so.
- Under half of colleges (44%) provide information directly from the computer though this rises to 60% among SFCs.

- Two thirds of colleges (though three quarters of SFCs) provide itemised figures to support each line of income and expenditure.

The CFDG considers it essential for teams to receive income and expenditure reports even if they are not provided through the management accounts.

Colleges were asked about whether various items of income and expenditure were tracked monthly at cost centre level. The pattern is summarised in Figure 9 (above). In general:

Figure 9:



- Around 40% of colleges tracked FEFC units and other sources of income monthly though FE colleges which more likely to do so than SFCs.
- Nearly 70% tracked part time teaching liabilities though this varied from 79% in FE to 17% among SFCs.

Similar questions were asked in relation to the information provided at college level. Summarising the answers, which are also illustrated in Figures 10 and 11.

Figure 10:

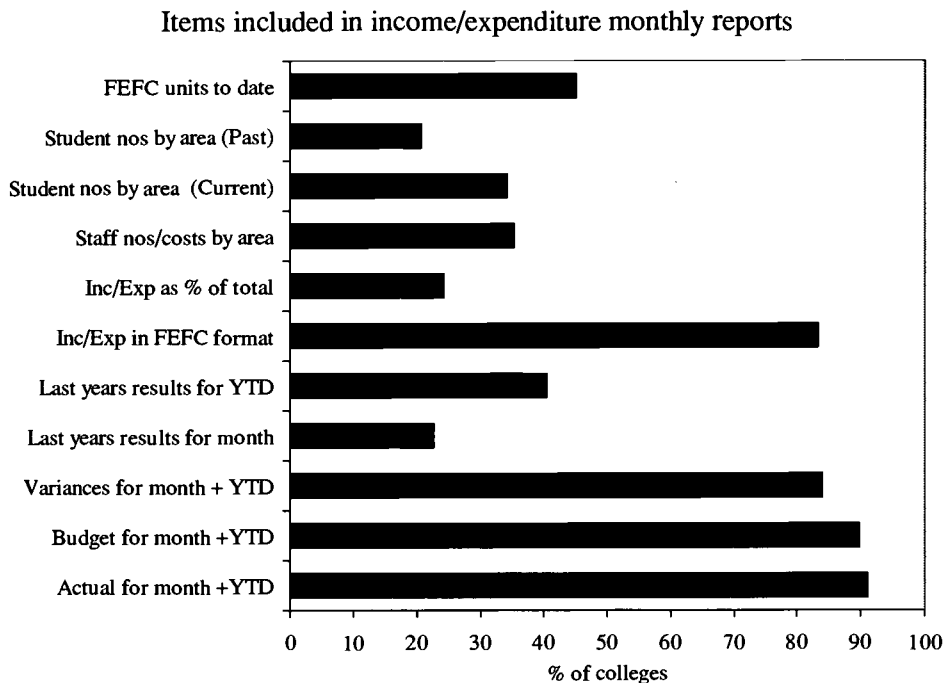
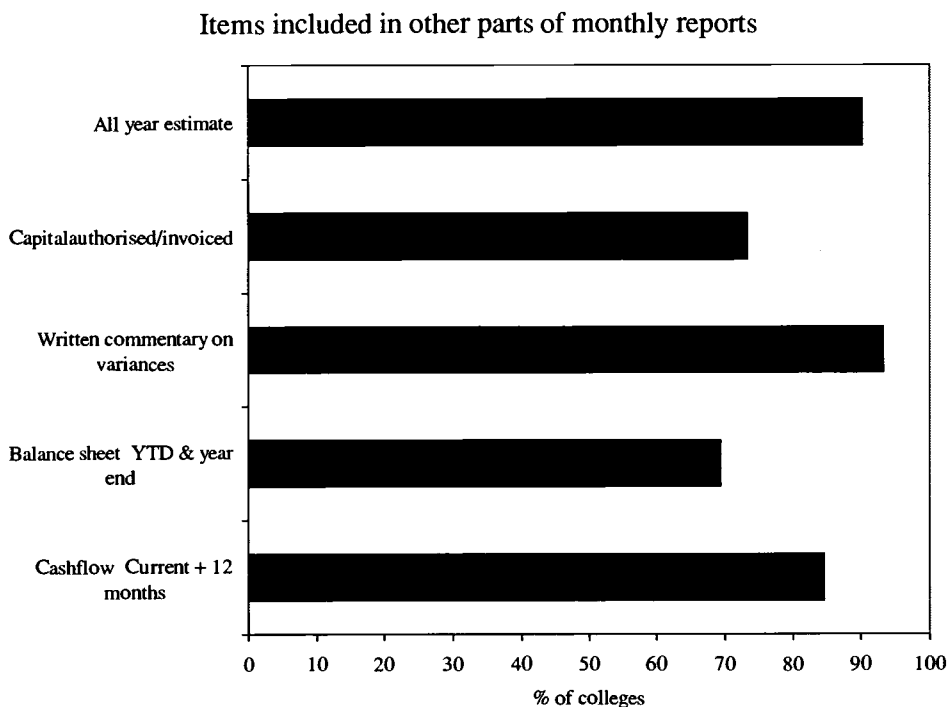


Figure 11:

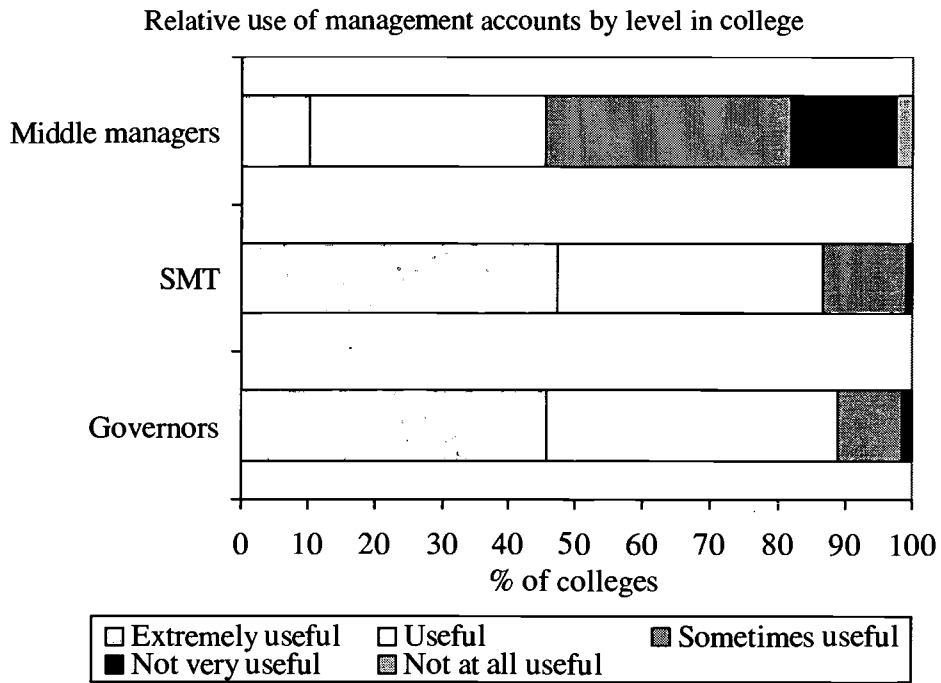


Around 90% of colleges reported budget, actual figures and variances for the month and YTD.

- Fewer than half also reported last year's figures for month or YTD.
- Fewer than half reported on FEFC units earned or student numbers.
- 84% reported cash flow monthly and 70% also gave the balance sheet.

Colleges were asked how useful they felt various groups considered the management accounts to be. The answers are shown in Figure 12 on a five-point scale where 1 is very useful and 5 is not at all useful. The headline messages are:

Figure 12:



- Colleges consider that governors and senior managers consider the monthly accounts to be either 'very useful' (50%) or 'useful' (40%).
- Colleges consider that just under half of middle managers find the accounts 'useful/very useful' but very few see them as 'not at all useful'.

Costing

The next section of the questionnaire asked about approaches to course costing. The overall responses are shown in Figures 13 and 14.

Figure 13:

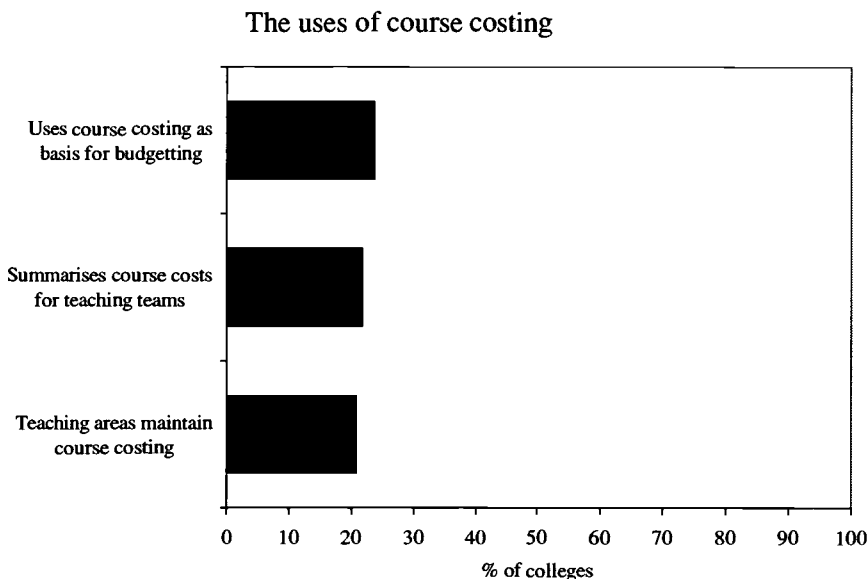
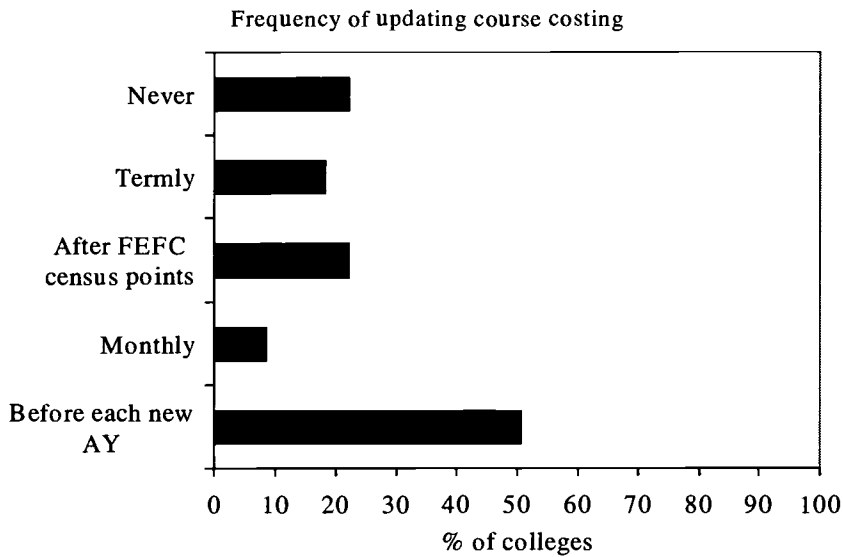


Figure 14:



The major points to emerge are:

- Around a quarter of colleges use course costing as a basis for budgeting with FE colleges only a little more likely to than SFCs.
- Course costing sheets are most commonly updated before the start of each academic year although around a fifth of colleges update termly or at census points. Around a fifth never update the sheets.

The CFDG considers that it is essential to update costing sheets before each year and good practice to do so either termly or at census points. The infrequent use of costing information revealed by the survey and the lack of updating must be a cause of concern.

Figures 15 and 16 illustrate the responses of colleges to a variety of costing approaches.

Figure 15:

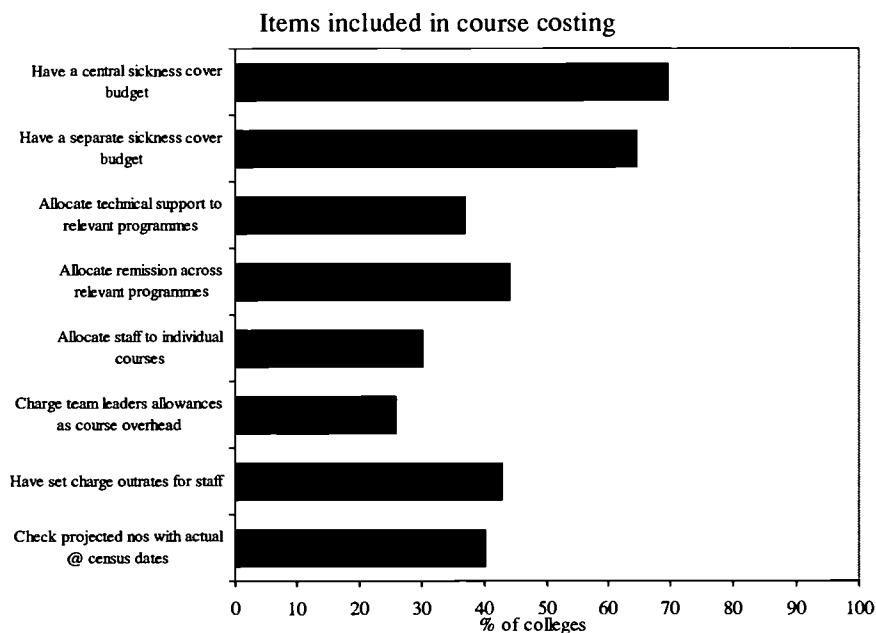
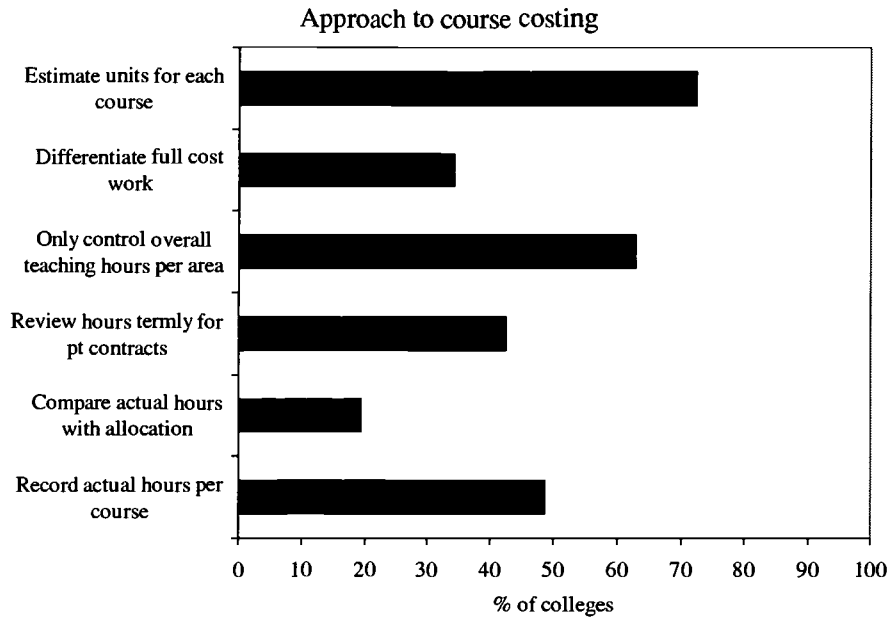


Figure 16:

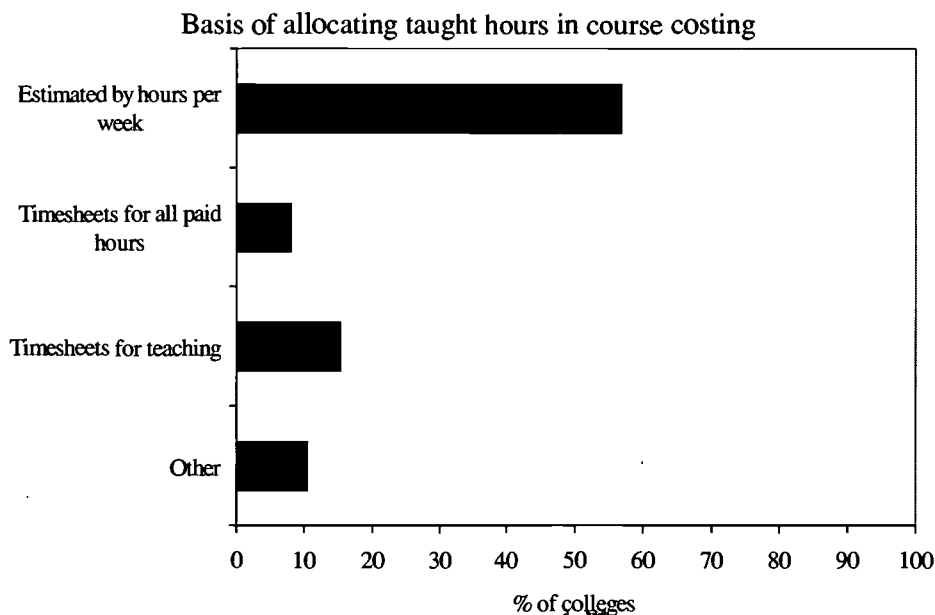


- A majority of colleges hold separate sickness budgets and manage them centrally with SFCs more likely to do so than the average.
- Around three quarters of colleges estimate the funding units likely to be generated by each course though SFCs are significantly less likely to do so than others (FE 78%, SFC 47%, Sp 75%).
- In few other cases is there a common pattern adopted by the majority of institutions.

There is a need to investigate why more colleges do not adopt practices which would appear to members of the CFDG to constitute good practice.

Figure 17 shows the approaches adopted to allocating hours to courses. Fewer than one in five colleges uses timesheets and around 60% of colleges of all types produce an estimate based on hours per week over, say, 36 weeks.

Figure 17:

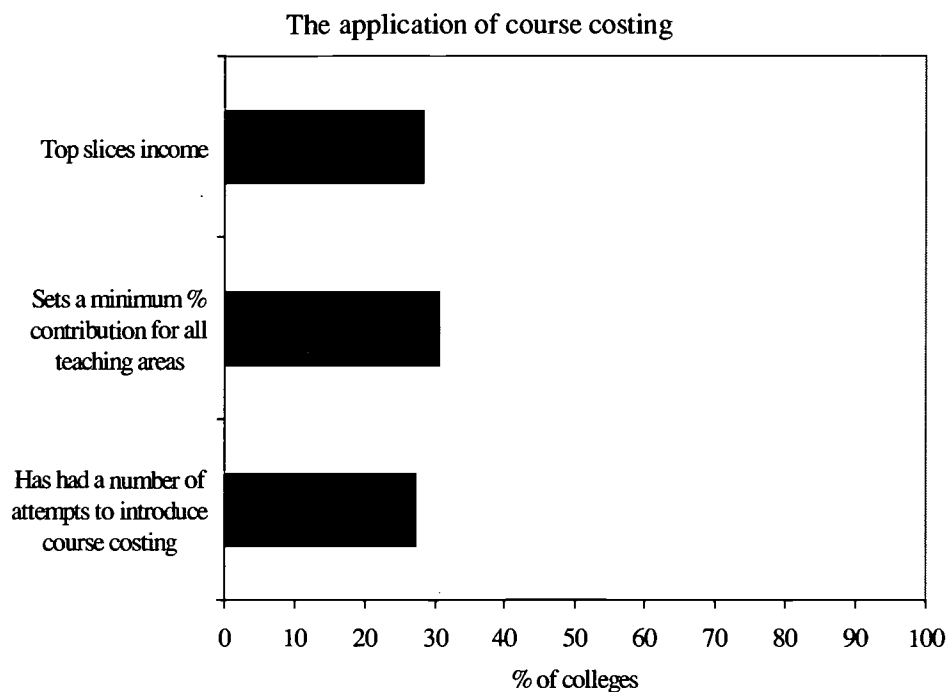


Colleges adopt a variety of internal yardsticks to help financial management such as, for example, requiring programme areas to make a specific contribution to overheads.

The final section of the questionnaire sought to examine the extent to which there might be consistency of practices in this respect. Overall the results show that there is a significant variation in the approaches adopted by colleges.

- Figure 18 shows that around 30% of colleges set a minimum percentage contribution and a similar number top slice income. However very few SFCs adopted these measures

Figure 18:



- Figure 19 shows that very few colleges systematically allocate a range of overhead costs to teaching departments.
- Figure 20 shows that most colleges top slice the major and more predictable sources of income

Figure 19:

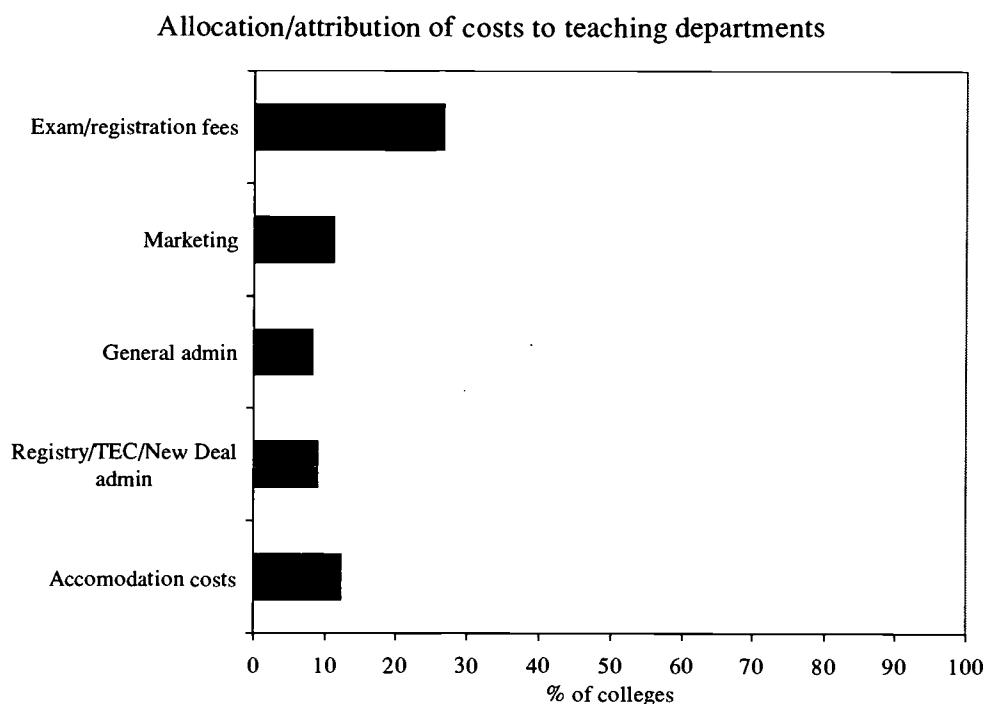
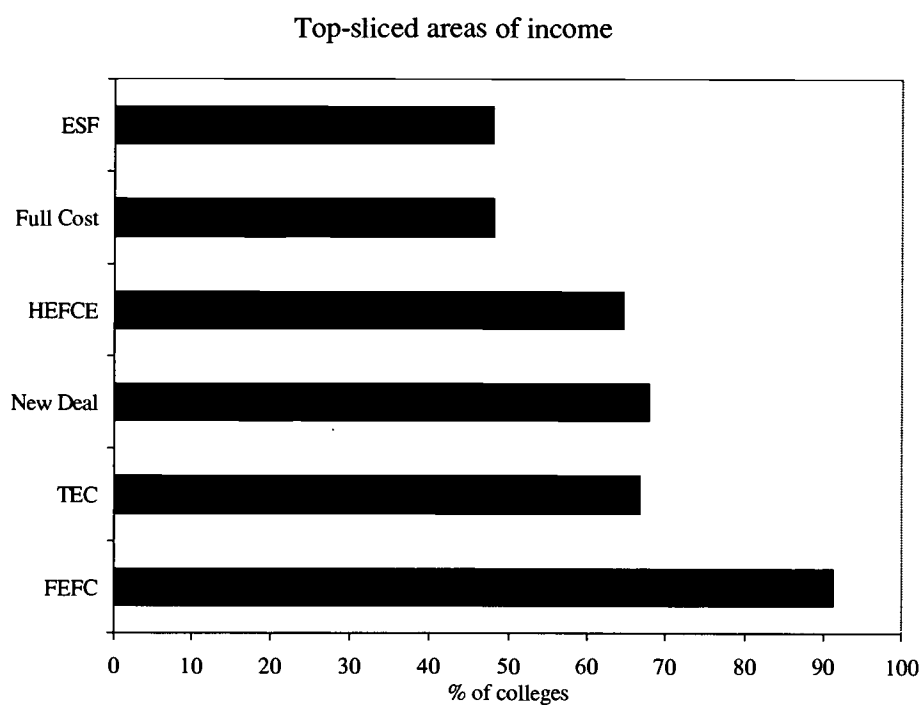


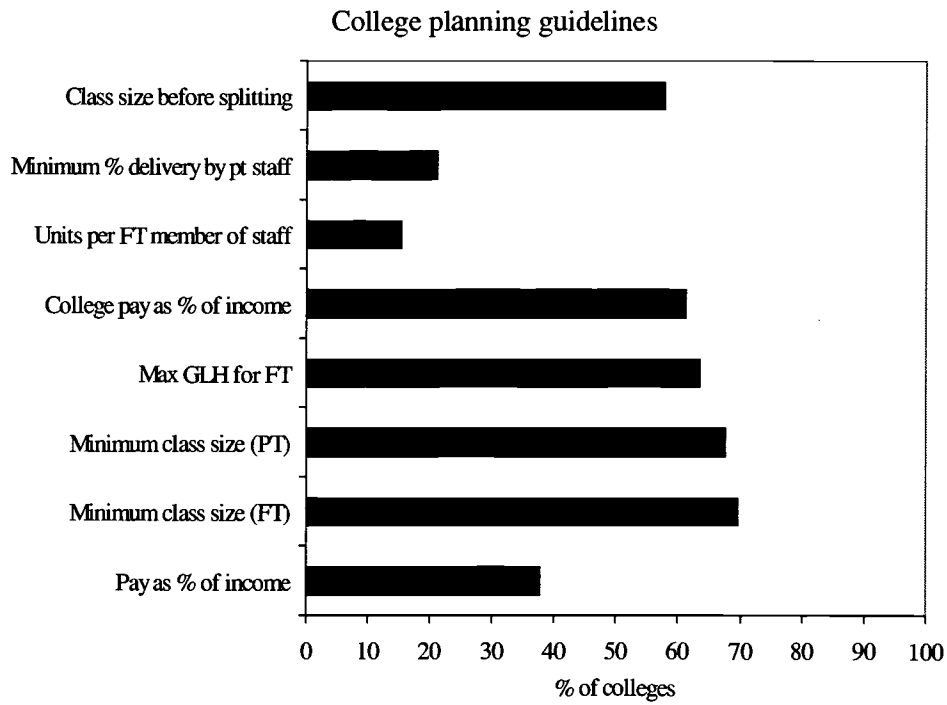
Figure 20:



Finally the questionnaire sought to establish whether colleges issue specific guidelines in relation to factors such as minimum class size, the proportion of teaching delivered by part time staff and maximum guided learning hours for courses. There is considerable variety. As Figure 21 shows, a majority of colleges identify minimum class sizes for full and part time groups; this does not vary significantly with the size or type of college. Only a minority of colleges have guidelines on the funding units required to be delivered per full time staff member or the percentage of teaching to be

delivered by part time staff, though large colleges are twice as likely to do so as medium and small ones.

Figure 21:



**Learning and Skills Development Agency
research reports are published to disseminate
the outcomes of selected projects within the
Agency's research and development programme.**

**For a full list of the Agency's publications
or current research projects, please contact
our Information Services Team.**

Tel 020 7962 1066

Fax 020 7840 5401

**Alternatively, visit the
publications and research sections of
our website at www.LSagency.org.uk
You can download many of our
publications from here.**

BEST COPY AVAILABLE

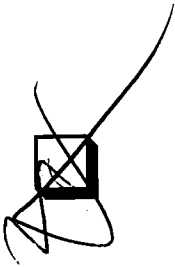


U.S. Department of Education
Office of Educational Research and Improvement (OERI)
National Library of Education (NLE)
Educational Resources Information Center (ERIC)



NOTICE

Reproduction Basis



This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.



This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").

EFF-089 (3/2000)