Pillar 1 – Paper 4 - Flexibilities

Context

Colleges in Scotland are treated as part of the government for accounting purposes, as their overall purpose is considered to be determined by government. Decisions on whether bodies are part of government or not are taken by the Office for National Statistics (ONS).

The UK follows international best-practice when reporting on public finances. Reporting on government accounts is supported by independent institutions, including the National Audit Office and Office for Budget Responsibility, as well as the ONS. In Scotland, this includes the Scottish Fiscal Commission and Audit Scotland, which audits colleges. Having open and transparent finances is a principle which underpins the UK's standing in international financial markets, and these structures provide investors with confidence when comparing financial risks of the UK government to other countries. Providing credible figures on public finances supports the UK's credit rating and directly affects its cost of borrowing.

Reporting standards also provide assurance to parliament, and ultimately the public, over the use of public funds. They are therefore an important part of maintaining public trust around the use of public money. The principles set out in the Scottish Public Finance Manual ensure that there is accountability to parliament over the use of funds, but also that there is transparency over liabilities and contingent liabilities that are incurred by public bodies. Providing an accurate picture of the overall finances of the broader government sector allows for better long term fiscal planning and for policy makers to better manage risks within the public finances.

Scotland's colleges were reclassified as central government bodies in 2010 (backdated to 1993) with the decision being enacted in 2014. The rationale for the reclassification were the "public sector powers" held by Government Ministers in existing legislation and their public agencies over colleges. UK Ministers accepted the basis of the ONS decision. A useful article on how ONS makes reclassification decisions and the criteria applied can be found here (Public sector or private sector: How the ONS decides – and why it matters | National Statistical).

As a result of the reclassification decision, Scotland's colleges operate as publicly funded bodies within a defined legislative, financial and accountability framework overseen by the Scottish Government (SG) and the Scottish Funding Council (SFC). As publicly funded bodies, their financial activities – such as borrowing, use of surpluses and investment decisions – are subject to wider Government budgeting rules and controls. These arrangements are designed to ensure appropriate stewardship of public funds but can also limit the degree of financial flexibility available to colleges.

Purpose

The review of college flexibilities is in response to sustained financial pressures across the sector, including constrained funding, rising cost pressures and the urgent need to invest in college estates and other infrastructure. Colleges have highlighted that the existing arrangements limit flexibility and decision-making or cause operational complexity.

The College Flexibilities Group (CFG), which includes SFC, SG and sector representatives, has considered this issue. It has identified areas which could provide greater flexibilities to the college sector, would better support investment and long-term financial sustainability while maintaining appropriate public accountability and ensuring that colleges adhere to their responsibilities under Fair Work.

To find the optimal balance, CFG has agreed that any additional flexibilities must be balanced with:

- Adherence to Fair Work principles.
- Maintenance of public accountability and regularity.
- Transparency and auditability.
- Consistency with the Scottish Public Finance Manual and wider government budgeting rules.
- Affordability within the wider Scottish Government fiscal context, including opportunity costs.
- Consistency and equity of treatment across the college sector.

Summary of progress to date

CFG is currently progressing the following workstreams:

- **Workstream A:** Comparison of regulatory frameworks across the UK nations.
- **Workstream B:** Refreshing of the Financial memorandum between SFC and institutions.
- **Workstream C:** Supporting long-term investment.

Workstream A: comparison of regulatory frameworks across UK administrations

Annex A compares the regulatory framework for colleges in Scotland with the other UK nations. Colleges in England, Wales and Northern Ireland operate under different regulatory and accountability regimes, with differing degrees of flexibility. For example, in Wales colleges are afforded a greater degree of flexibility as they remain outside the public sector as Not-for-Profit institutions serving households (NPISH). CFG identified the following areas for further exploration:

- Borrowing.
- Use and carry-forward of surpluses.
- Autonomy over certain asset disposals and use of proceeds.
- Approval requirements for severance schemes and some categories of expenditure.
- Procurement, consultancy and leases.

Workstream B: refreshing the SFC Financial Memorandum with colleges

The Financial Memorandum (FM) between SFC and Scotland's colleges, published in 2014, sets out the relationship between the SFC and colleges, the conditions of funding, and expectations on colleges' financial management, governance and accountability. It is the key mechanism for applying public finance controls to colleges.

SFC is currently reviewing the FM, and CFG has agreed that the following areas could be refreshed:

- Insurance requirements and insurance derogations.
- Procurement-related requirements to reflect current legislative limits.
- Procurement controls on the consultancy contracts.
- A range of other approval requirements.

Any substantive changes to controls based on wider public finance rules, budgeting frameworks or legislation may require agreement from SG and potentially HM Treasury.

Workstream C: supporting long-term investment

CFG has agreed to explore areas within and beyond the constraints of the SG budgetary and fiscal framework. It identified the areas for further exploration:

- College borrowing.
- Carry-forward of surpluses across colleges' financial years.
- Retention and utilisation of proceeds from disposals of exchequer funded assets.

These areas are described in more detail below.

Separately, through the preparation of the College Infrastructure Investment Plan, SFC and SG are also exploring the potential for colleges to use Mutual Investment Model (MIM) for capital investment. MIM is currently used in Wales.

College borrowing

As public bodies, there is a general rule that colleges are unable to undertake new borrowing due to constraints linked to the fiscal framework. As noted above, innovative options to provide long-term financial support are being explored, including mechanisms such as MIM. This is separate to the debt held by colleges before they were reclassified into the public sector in 2014.

Carry-forward of surpluses across colleges' financial years

Colleges currently cannot carry forward surpluses across their financial years due to the potential impact on SG's resource budget. At the time of the 2014 reclassification, most colleges set up Arms-length foundations (ALFs) as independent charitable bodies, legally companies limited by guarantee, to hold historic cash and any surpluses generated from commercial activities outside the SG accounting boundary. Colleges can submit funding applications to ALFs to access funds, but there is no guarantee that these applications will be successful. CFG is exploring the options available in relation to ALFs to better support colleges managing multi-year investments.

Proceeds from disposals of exchequer funded assets

SFC's Guidance for the disposal of publicly funded land and buildings and the retention of proceeds by colleges, published in July 2025, provided colleges with additional flexibilities to retain all disposal proceeds up to £1m and 70% of disposal proceeds over £1m. However, similar to the carry-forward of surpluses, a mechanism for carrying forward disposal proceeds across the financial years is needed.

Other areas for exploration

CFG has identified other operational areas where colleges experience practical constraints, or where existing arrangements add complexity. Areas for further exploration include supporting income growth, for example through a review of subsidiaries and exploring a mechanism to disseminate best practice. There may be scope for exploring the fiscal framework further.

Annex A

COMPARISON OF REGULATORY FRAMEWORKS IN SCOTLAND AND THOSE CURRENTLY IN FE SECTOR IN ENGLAND, NORTHERN IRELAND AND WALES. THIS INFORMATION IS EXTRACTED FROM PUBLICLY AVAILABLE SOURCES.

Scotland	**England**	**Wales**	**Northern Ireland**
BORROWING			
1. Colleges cannot borrow without the agreement of Ministers/Parliament as new private borrowing would score against Scottish Government borrowing limits under the current Fiscal Framework. This not a legal prohibition of borrowing but a requirement to seek the consent of Ministers/Parliament in order to borrow – Scottish Government itself is limited in its borrowing because of the Fiscal Framework. And therefore there's limitations in SPFM. 2. The only borrowing that currently exists is borrowing of incorporated colleges (loans taken out pre-2014 classification	3. Colleges require consent and would need to provide evidence of value for money which is unlikely to be achievable on commercial interest rates. The position described in the current college finance handbook published by Department for Education (DfE) is broadly the same as the position in Scotland after the transitional schemes (listed below) ended. The only material difference are the transitional arrangements set out below. 4. The most recent financial handbook requires a college to obtain consent from DfE for loans and overdrafts including any amendments to existing borrowing. Credit cards do not require DfE consent but must only be used for business expenditure	9. Colleges can currently borrow with no permissions required from MEDR. 10. This will remain the case under MEDR's new regulatory framework. However, the framework provides MEDR the opportunity to issue a borrowing threshold to colleges (as currently with universities) to review the governance over new borrowing (over a certain limit) before this is committed to.	14. Normally, a college will not be allowed to borrow. If a college wished to do so, it would need to seek the approval of the department. 15. If exceptionally a college is allowed to borrow – DEL would be required to cover the expenditure associated with the borrowing.

Scotland	England	Wales	Northern Ireland
to the public sector) continues to be paid off and does not score against Scottish government borrowing limits. Repayments of principal do not score against capital or resource budgets. Payments of interest relating to this borrowing scores against resource budgets. .	and be cleared before interest is incurred. (College financial handbook 2025: effective from 1 August - GOV.UK). 5. DfE have moved to a formula and bids basis for capital funding after having loan finance available at transition (Further education capital funding - GOV.UK). 6. ***Transitional arrangements (Both Schemes are now closed)*** DfE allowed colleges to continue commercial borrowing arrangements in limited circumstances for those colleges with existing borrowing/committed new borrowing and having obtained consent from DfE to do so for a limited period. This scheme has closed but details are below: College borrowing requests from DfE - The five cases DfE may consider granting consent are: - Amendment to existing borrowing facilities.	11. At present most FEIs have low levels of borrowing. 12. FEI borrowing has no impact on Welsh Government borrowing limits - due to current NPISH status. 13. Details of requirements in relation to borrowing can be found in: Regulatory Framework - Medr Condition: Financial Sustainability and Supplementary Detail from page 7 onwards.	

Scotland	England	Wales	Northern Ireland
	- Utilisation of existing borrowing facilities. - New borrowing consent. - Balloon Payment Refinancing. - Overdraft/Revolving Credit Facility Refinancing. 7. DfE opened a loan fund for capital developments in the sector which meet certain criteria as contained in the document below and would score as Financial Transactions akin to SFC FT loans. This scheme has closed: College capital loans guidance for applicants (publishing.service.gov.uk) 8. DfE also provided additional capital funding to colleges at transition.		
CARRY FORWARD OF SURPLUS			
16. Colleges must comply with the resource accounting requirements contained in the	22. Colleges in England will need to comply with CBG but will continue to have derogation to carry surpluses from one year to the next to meet	24. Welsh FEIs are NPISH and as such are not required to comply with resource accounting and	29. Colleges current and capital expenditure form part of RDEL and CDEL respectively and any expenditure not proposed

Scotland	England	Wales	Northern Ireland
HMT Consolidated Budgeting Guidance (CBG): 17. Colleges must ensure that they remain at break-even or in surplus in both the Financial Year and Academic Year on a resource budget basis. 18. Colleges cannot roll over surpluses generated to spend in future years as there would not be resource budget cover available (use of reserves in future periods is borrowing under the CBG rules) – to mitigate against funds being frozen, colleges can donate commercial surpluses to their ALFs by the end of each FY and apply for grants. 19. Colleges should ensure that the purpose for which funds are used for match the resource treatment (either RDEL or CDEL) which they were intended for.	commitments in future years as appropriate. No Arms-Length Foundations are proposed as English FE colleges have the ability to carry forward surpluses between years. 23. Colleges are not currently consolidated into DfE financial statements as they are operating under a derogation issued by HMT. DfE are considering the approach to consolidation as being into the DfE group, into a standalone ARA or another method of consolidation.	there is no requirement to breakeven on a resource basis. 25. FEIs are autonomous charitable corporations classified as NPISH and can therefore carry forward surpluses between academic years. 26. FEIs must ensure appropriate use of funds and this is included in audit opinion. 27. FEI trading subsidiaries are not part of resource accounting as both the FEI and its subsidiaries are outside the Government accounting boundary. 28. FEI financial statements are not consolidated into Welsh Government.	within budget or falling outside agreed delegations with Department for Economy (DfEc) or the agreed budget requires approval. 30. Colleges must ensure that they have the necessary DEL provision for any expenditure financed by grant-in-aid. 31. The build-up of any deposits may represent a saving to DEL. Colleges need to ensure that spend has the necessary DEL budget cover for any expenditure financed by grant in aid (Note – negative DEL creates its own budget cover).

Scotland	England	Wales	Northern Ireland
20. College trading subsidiaries are subject to the same ‘annuality’ and resource limits as colleges as they are inside the Government accounting boundary. 21. Colleges in Scotland are not directly consolidated into the Scottish Government Financial Statements – this is achieved through the submission of a Whole of Government Accounts return and SFC reporting on the budgetary position to SG on a monthly basis.			
FIXED ASSET DISPOSALS AND REINVESTMENT OF PROCEEDS			
32. Colleges must contact SFC to inform SFC about the proposed disposals of assets and assets must be disposed of at market rate. 33. If higher than £1m, the college can retain 70%, the remaining 30% may have to be returned by the college to be	35. The extent of colleges’ autonomy to dispose of fixed assets remains a policy decision for DfE. Colleges can dispose of fixed assets without DfE approval as long such disposals are not novel or repercussive transactions, and the disposals are value for money. However, there are restrictions in	39. Charitable requirements re safeguarding of assets require no sale at below Market Value. 40. There is some reporting around exchequer interests included in new framework	41. Colleges need to secure best price for surplus assets via auction or competitive tender unless agreed by the department. 42. All receipts must be declared to department and appropriate treatment decided by Department of Finance

Scotland	England	Wales	Northern Ireland
retained within the college sector. There is a presumption that the college can keep proceeds below £1m. The increase of the limit from £0.5m to £1m is an increased flexibility, as is the presumption that colleges can retain 70% of the proceeds above £1m. 34. Proceeds of disposals should be used to support investments (including major projects) which are linked to the colleges infrastructure strategy and aligned to SFC's College Infrastructure strategy. (Guidance for the disposal of publicly funded land and buildings and the retention of proceeds by colleges - Scottish Funding Council)	how colleges can utilise these proceeds. 36. For moveable fixed assets colleges have total discretion about how to reinvest the proceeds subject to the disposal having met the conditions below: - The proposal not being novel, contentious and repercussive. - Maintaining regularity, propriety and value for money. - Meeting any grant conditions relating to the assets disposal. - Plans are in place to ensure that investment in moveable fixed assets are sufficient to deliver its provision. - Moveable fixed assets can be replaced and/or upgraded when they reach the end of their economic life. 37. For land and buildings, colleges can use disposals to reinvest in fixed assets or to repay loans to DfE	(Governance and management / estates management) - notify Medr of sale, raising finance, ceasing to use for intended purpose, leasing. The purpose is for monitoring is to ensure that monies are reinvested appropriately: Condition: Governance and Management and Supplementary Detail p13	(DoF). For grant-financed assets, arrangements need to be in place to secure the repayment of the NI consolidated fund share of the proceeds of sales to surrender funds to the department. Reinvestment of proceeds: 43. Colleges require approval from the DfEc and DoF for Capital Projects, ICT and new programmes with a value in excess of £1m.

Scotland	England	Wales	Northern Ireland
	and to banks, repay any overpayments of Education and Skills Funding Authority (ESFA)/DfE grants or pay items such as overage or, exceptionally, provide working capital for colleges to avoid the risk of insolvency. 38. Should a college wish to use disposal proceeds for the purposes of avoiding insolvency they must first seek the approval of the DfE, who may need approval from HM Treasury. If a college wishes to use disposal proceeds for any other purpose (not listed above) they must approach DfE for approval. College financial handbook 2025: effective from 1 August - GOV.UK and the associated guide for assets disposals is below: College requirements regarding asset disposals - GOV.UK		

Scotland	England	Wales	Northern Ireland
SEVERANCE – SCHEMES AND INDIVIDUAL PAYMENTS / SETTLEMENT AGREEMENTS			
44. Colleges must approach SFC for consent for voluntary severance schemes to gain assurance that schemes are affordable and that value for money is achieved. Colleges must also approach SFC for extensions to existing schemes. 45. Individual severance payments with special/ex gratia payments over £1,000 must be approved by SFC. 46. Colleges must also seek SFC approval where a settlement agreement is used and need to comply with the SPFM limit on termination payments of £95k and payback period of over 24 months. Such cases (excluding strain costs) require consideration and approval by SFC and potentially by SG. 47. Compensation payments to individuals are covered by	48. FE Colleges in England do not require DfE consent for voluntary severance schemes but all severance schemes must demonstrate value for money and follow the appropriate governance route at the college for approval. 49. Colleges will have delegated authority for special severance payments and compensation payments up to a specified limit - beyond which, DfE approval would be needed at the levels detailed below: - The proposed severance payment non-statutory and non-contractual elements is £50,000 or more (gross, before income tax or other deductions). - An exit package which includes a special staff severance payment is at, or above, £100,000 and/or	56. Expectation of notification of VS to Medr - but FEI's are autonomous institutions. 57. In the new framework, it would classify as a notifiable event if the severance was £100k or above. The notifiable event would be confirmation that there has been oversight of the severance agreement via the provider's governance structure. Regulatory Framework - Medr (Notifiable Events p34) For more general restructuring see table p36 table 1e in same document and reporting requirements on P33.	59. DfEc approval is required if the special severance payment is £50,000 or more, equates to 3 months' salary or more, or if the total exit package is £100,000 or more. 60. Any severance involving confidentiality clauses is considered novel or contentious and requires prior approval. 61. Colleges are required to maintain clear, evidence-based business cases for all severance payments, even those under £50,000.

Scotland	England	Wales	Northern Ireland
SFC's requirement to approve severances with settlement agreements and ex gratia payments.	- The employee earns over £174,000. - A payment is novel, contentious and repercussive. 50. Where a confidentiality agreement is used it must not prevent a whistleblowing disclosure being made, if novel, contentious or repercussive most not be used without prior DfE approval and must not be used to prevent DfE from obtaining sufficient information to fully assess such payments under its regulatory role. **Compensation Payments** 51. Colleges must base their decision on a careful appraisal including legal advice where relevant and ensure value for money. 52. Colleges have delegated authority to approve individual compensation payments provided any non-statutory/non-contractual element is below £50,000 – above this limit DfE approval is required.	58. Given the NPISH status of FEIS being maintained – there are no requirements for authorisation of individual payments or settlement agreements by MEDR.	

Scotland	England	Wales	Northern Ireland
	53. Colleges should consider whether cases reveal concerns about the effectiveness of internal control systems and take steps to correct failings. **Ex-gratia and other special payments** 54. All such payments must always be referred to DfE for prior approval. 55. College financial handbook 2025: effective from 1 August - GOV.UK		

PUBLIC SECTOR PAY POLICY / NATIONAL BARGAINING			
62. Colleges need to have regard for Public Sector Pay Policy though colleges are not formally bound by the policy. College pay claims are settled centrally through a National Bargaining process.	63. There is semi-formal national bargaining between representative bodies and unions, but each college decides on the approach it takes. 64. The result of the national negotiations is a pay recommendation which individual colleges use as a benchmark to set their own pay rates.	65. Welsh Government has confirmed pay parity for teaching staff with teachers, so pay is aligned with teachers pay awards in Wales and funded by Welsh Government. This is not always fully funded for example in 2020, the Welsh Government funded 1.75% of a 2.75% award. (NASUWT | Further Education (FE) (Wales) details 2024-25 award) 66. Welsh teaching pay awards are within Welsh Government remit.	67. All staff are subject to levels of pay as approved by the DfEc and DoF. Current terms and conditions are set out in College employers forum circulars. Pay increases must have approval of the department and Minister for Finance prior to implementation. 68. The pay awards are funded through DfEc - Archibald welcomes multi-year pay offer for further education lecturers | Department for the Economy) and are aiming for parity with Teachers.
BANKING SERVICES			
69. Requirement to participate in Scottish Government banking service	70. Colleges will be encouraged to move to the Government Banking System. However,	71. Welsh FEIs are NPISH classified bodies and can make their own	72. Banking arrangements in line with MPMNI which contain

rather than tender for and use own existing banking arrangements. Colleges in Scotland have obtained a dispensation on joining this contract until their existing banking contracts expired at which point there was an expectation that they would migrate to the government banking contract. All colleges have completed this migration.	MPM does not exclude commercial accounts being held in certain circumstances..	arrangements for banking services.	requirements over the use of pool accounts and local banking services.
CONTINGENT COMMITMENTS / LIABILITIES / GUARANTEES			
73. Contingent commitments and liabilities that are above 4% of income and are not standard contractual indemnities for day-to-day activity must have consent from SFC and, if sufficiently material, also Ministerial/Parliamentary approval. 74. All novel, contentious and repercussive	75. Colleges will have delegated authority to enter into a range of contingent liabilities up to the cap suggested by DfE. Beyond that, and for any novel / contentious / repercussive (NCR) transactions, DfE and HMT consent must be sought. 76. DfE consent is required for indemnities not arising in the normal course of business, for letters of comfort and for guarantees where:	79. No requirement for Welsh FEIs to follow the same rules for contingent commitments due to NPISH status and not being consolidated into Welsh Government financial statements. 80. MEDR would expect FEIs to notify them of novel, contentious and repercussive transactions.	81. Written departmental consent is required to lend money, charge any asset or security, give any guarantee or indemnities or letter of comfort or any other contingent liability whether or not in a legally binding form.

transactions require SFC or SG consent.	- The case exceeds 1% of annual income or £45k individually (whichever is smaller) or - The case takes the college's cumulative total of such contingent liabilities for the academic year beyond 5% of annual income or £250k (whichever is the smaller). 77. Further guidance on this is available in the Bitesize guide below. College requirements for indemnities, guarantees and letters of comfort - GOV.UK 78. The Bitesize guide below details the approach that DfE is taking for novel, contentious and repercussive transactions. In essence, once identified all transactions required approval. NCR transactions in colleges and academy trusts - GOV.UK		
CERTIFICATE OF ASSURANCE / REGULATORY RETURN			
82. College CEOs/Principals provide SFC CEO with an annual certificate of assurance stating compliance with	83. Similar arrangement anticipated. An example of the regularity return colleges are required to make to DfE is at the link below:	84. MEDR does not require a certificate of assurance due to their status as autonomous NPISH entities.	85. Colleges must provide a suite of assurance statements to DfEc as required by the engagement plan that is part of their

SPFM and other requirements. SFC CEO provides corresponding assurance statement to Scottish Government.	Regularity_self_assessment_questionnaire_2024_to_2025.docx		funding/partnership agreement with DfEc. Engagement plans are adapted to institutions' context.
INSURANCE			
Colleges will be required to self-insure in line with other parts of the public sector but have a derogation in place allowing colleges to continue to take out commercial insurance and not to self-insure.	86. The English FE College Financial handbook requires that colleges must have adequate insurance cover in place to comply with their statutory and contractual obligations, including that required by their accountability agreements with DfE. This would require commercial insurance to be used to achieve this level of cover. 87. The position in England and Scotland is comparable given the application of the derogation.	88. Welsh FEIs are not required to self-insure or receive a derogation in respect of the use of commercial insurance due to their autonomous NPISH status.	89. Colleges cannot take out any insurance without prior approval of the department other than third party insurance required by Road Traffic Act and statutory obligation or that which is permitted under MPMNI. 90. In the event that any major loss or third-party claim, department will liaise with the college to consider additional budget from department funds and adjustment to outcomes. 91. FE sector procures sector-wide commercial insurance cover. Approval of the department is required for the sector to continue

			to purchase commercial insurance.

PROCUREMENT			
92. Colleges must comply with public procurement legislation and ensure regularity and value for money for all purchases. 93. Colleges must approach SFC for approval of any Non-Competitive Actions with a value over £25,000. SFC is planning to increase the threshold to £50,000 in the reviewed Financial memorandum.	94. Colleges are required to comply with public procurement legislation and ensure regularity and value for money in all that they purchase – there is no requirement for DfE to approve non-competitive actions.	95. Welsh FEIS are required to follow the relevant public procurement legislation - Procurement reform in Wales [HTML] | GOV.WALES 96. Welsh FEIs are not required to seek consent for Non-competitive actions.	97. Colleges' procurement policies shall reflect public procurement policy adopted by the NI Executive. 98. Under £10k including external consultancy require disclosure to DfE board and College AO. 99. Over £10k which are not external consultancy. £10-£30k require AO approval and disclosure to DfEc board. Over £30k Require Perm Sec approval. 100. Over £10k external consultancy require Ministerial Approval.

CONSULTANCY CONTRACTS AND NON-PROPERTY OPERATING LEASES			
101. Colleges must approach SFC for consent to enter consultancy contracts over £100,000 and non-property operating leases of £250,000.	102. English FE colleges are not required to seek consent for consultancy contracts over £100,000. English FE colleges do not need to seek approval from DfE for finance and operating leases.	103. No requirement for Welsh FEIs due to NPISH status.	104. Ministerial approval is required for spend over £10k. 105. The college has authority to appoint external consultants for a single contract without recourse to the Department in line with DoF delegated limits set out in DoF Guidance on the Use of Professional Services Including Consultants. 106. Regardless of value, the DoF external consultancy business case template must be utilised. 107. Departmental approval is required for all property leases 108. The college must have capital DEL provision for finance leases and other transactions which are, in substance, borrowing. 109. Before entering into any lease (including an

			operating lease) the college shall demonstrate that the lease offers better value for money than purchase.

FRAUD			
110. SFC must be notified of any fraud detected at a college and colleges must have adequate controls in place for the prevention and detection of fraud.	111. No change, expectation that any frauds will continue to be reported.	112. Under MEDRs new framework, fraud is a notifiable event if it meets the criteria: fraud or financial irregularities occur at the provider (i) where the sums of money are, or potentially are, in excess of £50,000 or 2% of the provider's turnover, whichever is lower; or (ii) if the fraud or financial irregularities are below these thresholds and fit within a certain set of circumstances. An institution would need to inform Medr. Regulatory Framework - Medr p36 and	113. Requirement to follow DoF guidance and to report all frauds to department.

		Notifiable events requirements p34	
OTHER TRANSACTIONS REQUIRING APPROVAL			
114. Colleges must inform SFC of transactions above certain thresholds as contained in Appendix A of the Financial Memorandum. [Financial Memorandum with the College Sector - 1 December 2014]()	115. An example of the thresholds applied by DfE are those for write offs and losses. Colleges have delegated authority to write-off amounts up to certain individual and cumulative limits. Beyond these limits, write-offs and losses must be referred to DfE for approval in advance. Most sums written off by colleges are likely to be relatively small. Consequently, DfE consent to a write-off will only be required if: i. The write-off exceeds 1% of annual income or £45k individually (whichever is smaller) or ii. The write-off takes the college's cumulative total write-offs for the academic year beyond 5% of its annual income or £250k (whichever is the smaller).	117. MEDR is revising its financial memorandum, and no specific thresholds are currently contained in this document. Current financial memorandum will be replaced by Conditions of funding from August 2026. [Regulatory Framework - Medr]() There are no specific thresholds set.	118. Proposals for making gifts and other special payments above the delegated limits require prior approval of the Department. 119. Prior departmental approval is required before entering into a Public Private Partnership (PPP). The College should also ensure that has required budget cover to meet the full cost of any contractual commitment under the PPP. 120. College shall not make any investment without prior written approval of the department and a college shall not build up cash balances in excess of operational requirements (30 days cash). 121. A college shall not enter into unconventional financing arrangements without consent from the department.

	116. The Bitesize guide for write offs and losses is at the link below: [College requirements for write-offs and losses - GOV.UK]		
STAFFING RETURNS			
122. Colleges must provide periodic staffing data returns as part of public sector staffing reporting.	123. English FE Colleges provide annual staffing returns to DfE.	124. At present MEDR does not collect staffing data.	125. As noted at paragraph 134 below – colleges have to provide the department with a considerable amount of financial and non-financial information. It is unclear whether staffing data is collected as part of this.
ARMS-LENGTH FOUNDATIONS			
126. Colleges have set up arms-length foundations (ALFs) as independent charities to donate commercial surpluses to enable these to be spent between years. Commercial surpluses must be donated by the end of each financial year. 127. Colleges do not require additional budget cover for expenditure financed from	128. No ALFs proposed in England – colleges will continue to have delegated authority to carry surpluses from one year to the next.	129. All FEIs are charitable corporations.	130. No ALFs in Northern Ireland.

College's other/commercial income (or monies from an ALF).			
CASHFLOW AND BUDGETARY RETURNS			
131. Colleges provide monthly cash flow returns and annual AME returns to SFC. Colleges also initially provided quarterly resource returns until it was agreed with SG that these returns could be discontinued with more detail now captured in the cash flow returns sent to SFC to allow a more streamlined approach.	132. English FE Colleges submit forecast returns and annual accounts returns to DfE.	133. Colleges do not provide monthly cash flow returns to Medr unless specifically requested. 134. Student data is collected live (monthly) via Llwr.	135. Colleges must return Annual accounts to DfEc. In addition, as part of the agreed engagement plan with DfE colleges must return Monthly financial management returns, Monthly Cash Forecast, Engagement on budget requirements and Forecast Spend for the Financial year, report provisional and final outturns and submit budget for approval to the department. 136. Colleges are also required to supply a return to assist DfEc with the consolidation of their results.
PREPARATION OF COLLEGE FINANCIAL STATEMENTS			
137. Colleges need to comply with the FE/HE SORP and with the FReM. Where the FE/HE SORP conflicts with the FReM, the SORP takes precedence. In practical terms, this has led to some additional disclosures in colleges' financial statements to	138. The position for English FE colleges is broadly the same as most providers prepare their financial statements using the SORP, and the FReM will apply. Like SFC, the DfE publish an accounts direction to provide guidance on the basis for	139. FEIs need to comply with the FE/ HE SORP and an Accounts direction, which has not historically been published. This document is compared annually with the English Accounts Direction, to	141. Colleges must comply with the FE/HE SORP and the FReM.

ensure FReM compliance. SFC reviews the FReM requirements as part of issuing its Accounts Direction annually to colleges and incorporates any disclosure requirements therein.	preparation for college financial statements and required disclosures. (College accounts direction 2024 to 2025)	which it broadly conforms with any England-specific requirements removed. 140. Current financial memorandum will be replaced by Conditions of funding from August 2026: Regulatory Framework - Medr As NPISH, FReM is not applicable.	
CONSOLIDATION OF COLLEGE FINANCIAL STATEMENTS			
142. Colleges financial statements are not consolidated into SFC's financial statements, but SFC prepares the Whole of Government Accounts return for the college sector. SFC's own resource returns incorporate the consolidated sector resource position based on returns received from colleges.	143. Colleges are not currently consolidated into DfE financial statements as they are operating under a derogation issued by HMT. DfE are considering the approach to consolidation as being into the DfE group, into a standalone ARA or another method of consolidation. 144. Colleges will form part of DfE budgetary estimate totals and consolidation totals.	145. Medr prepare a consolidated position of Welsh FE for benchmarking purposes within the sector only, but this is not consolidated into Medr or Welsh Government.	146. College financial statements are consolidated into the Financial statements of the DfEc.

	Colleges currently still have July financial year-end. DfE and HMT continue to discuss whether colleges year-end will remain in July or be required to move to March.		
FINANCIAL YEAR END			
147. Upon reclassification of Scottish Colleges there was an initial change to move colleges to a March year-end for all except the colleges under the University of Highlands and Islands umbrella. College financial year-ends then reverted back to the current July year-end as this corresponds to colleges' operating cycle.	148. For 2024-25, colleges will retain their current July year-end. DfE and HMT are currently discussing whether colleges year-end will remain in July or be required to move to. 2024-25 is the second accounting year after ONS reclassification to public bodies. (College accounts direction 2024 to 2025)	149. Year end for FEIs in Wales remains 31 July reflecting the academic year.	150. Financial year-end is currently 31 July, and colleges must provide additional reconciliations to DfEc at 31 March. DfEc have been considering whether to move the year-end to March to align to the department's Financial year.
CHARITABLE AND VAT STATUS			
151. The charitable status and VAT status of colleges were unaffected by the reclassification. On charitable status, the view of the Charity Commission may differ from that of the Office of the Scottish	152. Same position in both jurisdictions.	153. Welsh FEIs are all exempt charitable corporations. 154. The Principal regulator is currently Welsh Government.	155. Colleges are Non-departmental public bodies funded by DfEc and exempt charities for HMRC.

Charity Regulator as the legislation in both jurisdictions is slightly different.		Transfer of this duty to Medr is currently under consideration.	

Northern Ireland – Role of the Minister

The Chair of the College is responsible to the Minister. Communication between the Governing Body and the Minister should normally be through the Chair. The Minister should host a meeting of the Governing Body Chairs each year to discuss performance and relevant policy strategy developments.

The Departmental Accounting Officer is responsible for advising the Minister on a number of issues including the College's objectives and targets, budgets and performance.

In addition to being answerable to the Assembly, the Minister is also responsible for:

- Setting the strategic direction and overall policies and priorities for the College;
- Approving the Corporate Plan;
- Approving the College's budget; and
- Appointment of Governing Body members.

The accountability relationship between the Department for Economy in Northern Ireland and a college are underpinned by individual funding agreements between the institutions and the Department for Economy in Northern Ireland.