

FE Commissioner Benchmarks: Definitions, April 2022

This schedule sets out the methodology used to calculate the FEC benchmarks. The definitions make reference to the schedules in the ESFA finance record for 2020 to 2021.

Tables 2 to 6 detail how each benchmark is calculated. For two of the ratios, an adjusted income total is used. Table 7 sets out how this is calculated.

Table 1 – Revised FEC Benchmarks

| Benchmark | Definition | Measure |
|---|--|--------------------------------|
| Adjusted Operating Surplus/deficit (as a % of income) | Surplus/(deficit) on continuing operations after depreciation and before exceptional items, tax, pension finance income and FRS 102 adjustments, divided by adjusted income | >1 |
| Debt Service Cover Ratio | Net cashflow from operating activities divided by the total of interest paid, interest element of finance leases, repayment of amount borrowed and capital element of finance leases | >2 |
| Cash Days in Hand | Cash and investments divided by annual operating costs and interest charges, then multiplied by 365 days. Effectively a measure of how many days it would take to exhaust cash reserves if all income were to stop. | >25 (all months) |
| Adjusted current ratio | Current assets (excluding restricted cash from disposal of fixed assets held for future reinvestment and assets held for resale) divided by current liabilities (excluding deferred capital grants and holiday pay accruals) | >1.4 |
| Pay costs (as a % of income) | Total staff costs (teaching and support, including contract tuition services but excluding restructuring and FRS102 pensions adjustments) as a percentage of adjusted income (excluding franchised provision income) | <65% (GFE) <70% (SFC) |
| Financial health grade | Financial grade as defined by ESFA (to note this is currently subject to review) | Good or Out-standing |

Table 2 Adjusted Operating Surplus/Deficit (as a % of income)

| | | |
|------------------------------------|--|--|
| Adjusted Operating surplus/deficit | Surplus / (Deficit) after interest, tax, depreciation and amortisation costs | SOCI FS-SOCI-5 |
| Adjustments – Less | Emergency funding /Restructuring Facility Grant/LEP Support | I&E IE-1i |
| Adjustments – Plus | FRS102 adj. current service costs Restructuring Facility related expenditure as detailed in RF agreement Taxation Pension finance costs (net) | I&E IE-2a-9 I&E IE-8a I&E IE-5a-5 I&E IE-5a-4 |
| Total | Adjusted operating surplus | Ratios R-5d |
| Divided by | Income used in ratio analysis (adjusted income) | Ratios R-1a |
| Equals | Adjusted operating surplus as a percentage of income | Ratio R-5e |

Table 3 – Debt Service Cover Ratio

| | | |
|--|--|--|
| Net cashflow from operating activities | | Cashflow IC-1 |
| Divided by | Interest paid (loans) Interest element of finance lease rental payments Loan repayments (per loan agreement) Capital element of finance lease rental payments | Cashflow IC-3a Cashflow IC-3b Cashflow IC-3d-1 Cashflow IC-3e |
| Equals | Debt Service Cover Ratio | Ratios R-4a |

Table 4 – Cash Days in Hand

| | | |
|------------------------|---|---|
| Cash and investments | Cash and cash equivalents Short term investments | BS IC-5 BS B-2h-CB |
| Divided by | Total staff costs excluding restructuring excluding FRS102 adj. current service costs Total other operating expenditure excluding bad debt provision costs Interest and other finance costs | I&E IE 2a I&E IE-2a-9 SOCI FS-SOCI-2b I&E IE-2b-9 I&E IE-5a-3 |
| Multiplied by 365 days | | |
| Equals | Adjusted cash days in hand (Expenditure Basis) i.e. estimated days until a cash deficit if all receipts were stopped and only operating payments and interest charges continued) | Ratios R-2a |

Table 5 – Adjusted Current Ratio

| | | |
|---------------------|--|--------------------------|
| Current assets | Total current assets | BS FS-B-2-CB |
| Adjustments – Less | Restricted cash Fixed assets held for sale | BS B-2j-CB BS B-2a-CB |
| Divided by | | |
| Current liabilities | Total creditors: amounts falling due within one year | BS FS-B-3-CB |
| Adjustments – Less | Capital grants Accrual for holiday pay and sabbatical leave | BS B-3f-CB BS B-3o-CB |
| Equals | Adjusted current ratio | Ratios R-2c |

Table 6 – Staff Costs as a % of Income

| | | |
|--------------------|---|------------------------|
| Staff Costs | Total staff costs excluding restructuring | I&E IE-2a |
| Adjustments – Less | FRS102 adj. current service costs | I&E IE-2a-9 |
| Divided by | Income used in ratio analysis (adjusted income) | Ratios R-1a |
| Adjustments - Less | Franchised provision income | CFFR SOCI FS-IE-1SO |
| Equals | Total staff costs as a percentage of income (excluding franchised provision income) | Ratios R-9a |

Table 7 – Income used in ratio analysis

| | | |
|--------------------|--|-------------------------------------|
| Income | Total income | SOCI FS-SOCI-1 |
| Adjustments – Less | Release of capital grants Emergency funding Gifts and donated assets | I&E IE-4a I&E IE-1i I&E IE-1j |
| Equals | Income used in ratio analysis (adjusted income) | Ratios R-1a |