

Accounts direction for further education colleges in Wales for 2025/26

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To: Principals of directly-funded further education institutions in
Wales

Chief finance officers of directly-funded further education
institutions in Wales

Respond by: 31 December 2026

More information: assurance@medr.cymru

Summary

This publication provides information on Medr's requirements for the format of Welsh further education institutions' audited financial statements.

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Introduction

Accounts direction

1. This accounts direction advises colleges of Medr's requirements for the format of their audited financial statements for the year 2025/26.
2. We use the term "college" to refer to further education and sixth-form college corporations, established under the provisions of the [Further and Higher Education Act 1992](#).
3. Medr publish the accounts direction on behalf of the Welsh Government, who are the principal regulator of Welsh further education colleges as exempt charities. Compliance with this accounts direction is a requirement of colleges terms of funding with Medr and other public funders.
4. Colleges in Wales remain subject to the Welsh Government's [Financial Memorandum](#) until Medr's own regulatory framework¹ comes into effect from 1 August 2026.
5. References to Medr are assumed to refer to the collective responsibility to Welsh Government via Medr.
6. This accounts direction is primarily for use by:
 - a) principals, chief executives / accounting officers, and finance directors
 - b) governors
 - c) external auditors / reporting accountants

Background

7. Paragraph 36 of the [Financial Memorandum](#) between the Welsh Government and institutions, issued in March 2015 (guidance document no: 160/2015), requires institutions to comply with the Accounts Direction issued periodically by Medr. The direction will cover information to be contained in the financial statements, the manner in which they are to be presented, the methods and principles according to which they are prepared, and that they will be in accordance with UK Generally Accepted Accounting Practice and the [Statement of Recommended Practice: Accounting for Further and Higher Education 2019](#) ('FE and HE SORP').
8. In issuing this direction Medr wishes to ensure the form, content and disclosures within institution's financial statements follow good practice, are consistent across the sector and meet any specific requirements of the Welsh Government.

¹ [Regulatory Framework - Medr](#)

Updated since the previous version

9. The following amendments have been made to this document since the final version for 2024/25:
 - a) Minor narrative / typographical changes and updated internet links
 - b) Annex D (v) – higher paid banding - clarification on treatment of staff not working a full year

Application

10. This guidance is reviewed annually and is applicable for all accounting periods commencing on or after 1 August 2025. It will remain in force until such time as it is replaced.

Statement of recommended practice

11. In preparing their financial statements, Medr requires all institutions to comply with [FRS 102: the Financial Reporting Standard applicable in the UK and Republic of Ireland](#) ('FRS 102') and the [FE and HE SORP](#).

College accounts direction handbook

12. Further guidance can be found in the [College Accounts Direction handbook](#) published by the Association of Colleges. Please note that this includes specific references to English funding bodies and guidance which should be replaced with the Welsh equivalent. An example set of financial statements – Casterbridge College - has been produced as part of the handbook.
13. In addition to the requirements of the [FE and HE SORP](#), Medr requires that institutions' audited financial statements be prepared in accordance with UK Generally Accepted Accounting Principles.
14. In the case of an institution that is also a company limited by guarantee, this direction is subject to the additional requirements of the Companies Act 2006.
15. Where an institution has subsidiaries that are limited companies, they will also be subject to the requirements of the Companies Act 2006.
16. Institutions are also required to include in their financial statements the following:
 - a) a strategic report (can also be called the treasurer's report, members' report, directors' report, report of the governing body or trustees' annual report);
 - b) a statement covering the responsibilities of their governing body in relation to corporate governance. This statement, that includes a statement on internal control, is required to indicate how the institution has complied with current best practice in this area, an example can be found in [Annex A](#). The [Code of](#)

[Good Governance for Colleges in Wales](#) was published by Colegau Cymru in January 2016;

- c) a statement of the responsibilities of the governing body, an example can be found in [Annex C](#);
- d) an independent auditor's report.

Charities Act 2011

- 17. Welsh institutions are subject to the requirements of the [Charities Act 2011](#). They should also have regard to the additional requirements of the [Charities Statement of Recommended Practice](#) (Charities SORP). However, as the FE sector has special financial and reporting issues that are different from other organisations that have charitable status, the [FE and HE SORP](#) takes precedence over the Charities SORP.
- 18. The following information must be included in the college's audited financial statements and related reports:
 - a) the legal status of the college;
 - b) the trustees who served at any time during the year and until the date the financial statements were formally approved;
 - c) a statement that the college has had due regard to the Charity Commission's guidance on public benefit (if the college is a charity);
 - d) a report on how the college has delivered its charitable purposes for public benefit;
 - e) information about payments to or on behalf of trustees, including: expenses, payments to trustees for serving as trustees (and waivers of such payments), and any related party transactions involving trustees. This should be, as a minimum, the total of such payments made in the year (or if none, a statement to that effect) and the number of trustees who received the payments. Comparative figures should also be included.

Further specific guidance

- 19. Additional guidance is included in [Annex D](#).

External audit

- 20. Institutions are required to ensure that their contracts for external audit make provision for an opinion on whether the institution has applied income, where appropriate, in accordance with the [Financial Memorandum](#)², and whether Medr grants and other public funding have been used for the purposes for which they were received.
- 21. Institutions should be aware that their external auditors will be reviewing the corporate governance and internal controls statement as part of their audit work and will be including a reference to this work in their audit opinion.

² This will be superseded by Medr's new [regulatory framework](#) from 1 August 2026.

22. The form of the audit report is governed by International Standards on Auditing (UK) (ISAs). The particular standard is 'ISA 700: Forming an Opinion and Reporting on Financial Statements'.
23. This Accounts Direction and the [Financial Memorandum](#) should be copied to the external auditors.
24. External auditors are reminded that where they are unable to express an unqualified opinion on the institution's financial statements, they should immediately communicate this to the Principal, the Chair of the College and the Chair of the Audit Committee. They should also inform Medr.
25. Audit firms cannot be appointed as internal and external auditors at the same time or for the same financial year under any circumstances.
26. In accordance with the [Financial Memorandum](#) and Charity Commission guidance, all colleges must make their annual reports and statutory accounts promptly available on their websites. This may require an extra statement from external auditors. The auditors may also require an additional statement in the governing body's responsibilities in regard to the website if the audit opinion is to be published.

Accounts timetable

27. Paragraph 35 of the [Financial Memorandum](#) requires institutions to provide Medr with a signed copy of its financial statements no later than **31 December** each year. Medr also requires the external auditor's management letter, including the institution's response, to be submitted at the same time. Colleges should also submit their Finance Record return by the same date.
28. Please note that these documents can be submitted electronically.
29. In accordance with the [Financial Memorandum](#), institutions must make their annual reports and accounts publicly available, and should publish them on their websites by **31 January** following the period end.

Financial difficulties

30. Colleges are reminded that if they are experiencing financial difficulties or bank covenant breaches which may impact on the college's ability to continue as a going concern and thus the external auditor's ability to conclude their work based in this area, the college should notify Medr as soon as any such situation arises. This is irrespective of whether there is a risk that the submission deadline may be missed.

Further information

31. Any queries regarding this publication should be directed to assurance@medr.cymru.

Annex A: Statement of corporate governance and internal control

1. Good corporate governance is fundamental to any effective organisation and is the hallmark of a well-managed entity, and for colleges it demonstrates they are conducting business in the best interests of their students and in accordance with their funding requirement. Colleges in Wales must comply with one of the following governance codes:
 - a) [Code of Good Governance for Colleges in Wales](#), published by Colegau Cymru in 2016 to support governance practice, ensuring faithful custodianship of public funds, and to ensure the best interests of students.
 - b) [Charity Governance Code](#) (if applicable).
 - c) The [UK Corporate Governance Code 2018](#) is endorsed by the Charities Commission. Colleges that adopt this code are not expected to comply with those requirements that are not relevant to further education and sixth-form colleges. However, they should have due regard to the principles and guidance insofar as they apply to the further education and charity sectors.
2. Colleges must adopt a governance code that best reflects their legal structure and operations.
3. Colleges must include a statement of corporate governance and internal control within their annual report and accounts, covering the beginning of the financial period to the date of the signing of the accounts for that financial period, which must include:
 - a) declaration of compliance with their adopted governance code with explanations for any departures, or
 - b) if not adopted, a statement to the effect of, 'whilst not having adopted the UK Corporate Governance Code 2018 the college has due regard to its principles and guidance'
 - c) details of those who served as members of the governing body during the year including a record of attendance at meetings
 - d) the number of audit committee meetings which took place in the year and attendance records for each committee member
 - e) the governance framework, including:
 - o committee structure
 - o the process for making appointments to the college
 - o the coverage of the college's work during the period
 - f) how the college identifies, evaluates and manages risk (including an impact and likelihood evaluation of key operational, financial, compliance and other risks)
 - g) any significant internal control weaknesses or failures that have arisen, and action taken
 - h) the internal control and assurance framework and how the college has met its:
 - o statutory responsibility for 'the effective and efficient use of resources, the solvency of the institution and the corporate body and the safeguarding of

their assets' (as required by Section 5(3)(c) of Schedule 4 of the [Further and Higher Education Act 1992](#)).

- o contractual responsibilities under its funding agreements and contracts with Medr
 - i) details of the college's performance, including an assessment of its own effectiveness
 - j) a statement from the audit committee which draws upon the work set out in its annual report and, where appropriate, the work of internal audit. This should include a statement on the effectiveness of the college's framework of internal control
 - k) details of any activities undertaken during the year to develop governors and clerks/heads of governance
 - l) an assessment of whether the college is a going concern, whether this supports the adoption of the going concern assumption, and any supporting assumptions, qualifications and mitigating actions, as appropriate (which must be consistent with other disclosures in the accounts and auditor's report)
4. The statement of governance and internal control should cover the financial period, as well as any matters up to and including the date the accounts are approved.

Annex B: Statement of regularity, propriety and compliance

1. Colleges are in receipt of significant public funding and must be able to assure Medr, who in turn assure Welsh Government and the public, of high standards of propriety in the management of those funds. This assurance is provided primarily through the accounting officer, who bears a personal responsibility for these issues, which exists independently of any they hold as part of the board or executive management. The accounting officer must sign a statement of regularity, propriety and compliance each year and submit this with the accounts. The contents of the statement must be discussed with the board, and the chair of governors must also sign the statement to attest to this fact.
2. The statement must be prepared in the following format:

Statement of regularity, propriety and compliance

As accounting officer of *NAME OF COLLEGE*, I confirm that the college has had due regard to the requirements of grant funding agreements and contracts with Medr, and has considered its responsibility to notify Medr of material irregularity, impropriety and non-compliance with terms and conditions of funding.

I confirm on behalf of the college that after due enquiry, and to the best of my knowledge, I am able to identify any material irregular or improper use of funds by the college, or material non-compliance with the terms and conditions of funding, under the college's grant funding agreements and contracts with Medr, or any other public funder.

[Either:] I confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to Medr.

[Or:] I confirm that the following instances of material irregularity, impropriety or funding non-compliance have been discovered and have been notified to Medr. If any instances are identified after the date of this statement, these will be notified to Medr:

- [instances to be raised]

[Signed]

[Name to be typed]

Accounting officer

[Date]

Statement of the chair of governors

On behalf of the college, I confirm that the accounting officer has discussed their statement of regularity, propriety and compliance with the board and that I am content that it is materially accurate.

[Signed]

[Name to be typed]

Chair of governors

[Date]

Annex C: Statement of responsibilities of the members of the governing body

1. The chair of governors must sign a statement of responsibilities of the members of the governing body each year on behalf of the college and submit this with the accounts.
2. The model statement below should be amended as needed for the specific circumstances of the college.

Statement of responsibilities of the members of the governing body

The members of the governing body are required to present audited financial statements for each financial year.

Within the terms and conditions of the [Financial Memorandum](#) between the Welsh Government / Medr and the governing body of the college, the governing body, through its accounting officer, is required to prepare financial statements and an operating and financial review for each financial year in accordance with the *Statement of Recommended Practice – Accounting for Further and Higher Education*, the *Accounts Direction for Further Education Colleges in Wales (FE and HE SORP)* and the UK's Generally Accepted Accounting Principles, and which give a true and fair view of the state of affairs of the college and its surplus/deficit of income over expenditure for that period.

In preparing the financial statements, the governing body is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess whether the college is a going concern, noting the key supporting assumptions, qualifications or mitigating actions, as appropriate (which must be consistent with other disclosures in the accounts and auditor's report); and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the college will continue in operation.

The governing body is also required to prepare a members' report in accordance with paragraphs 3.23 to 3.27 of the [FE and HE SORP](#), which describes what it is trying to do and how it is going about it, including information about the legal and administrative status of the college.

The governing body is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the college and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation including the [Further and Higher Education Act 1992](#) and [Charities Act 2011](#), and relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

The governing body is responsible for the maintenance and integrity of its website(s); the work carried out by auditors does not involve consideration of these matters and, accordingly, auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the governing body are responsible for ensuring that expenditure and income are applied for the purposes intended by Medr and that the financial transactions conform to the authorities that govern them. In addition, they are responsible for ensuring that funds from Medr, and any other public funds, are used only in accordance with the [Financial Memorandum](#) issued by the Welsh Government and any other conditions that may be prescribed from time to time by Medr or any other public funder. On behalf of the governing body, the chair of the board of governors is responsible for discussing the accounting officer's statement of regularity, propriety and compliance with the accounting officer.

Members must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, members of the governing body are responsible for securing economical, efficient and effective management of the college's resources and expenditure so that the benefits that should be derived from the application of public funds from Medr and other public bodies are not put at risk.

Approved by order of the members of the governing body on **[date]** and signed on its behalf by:

[Signed]

[Name to be typed]

Chair of governors

Annex D: Specific accounting and disclosure matters

We draw colleges' attention to a number of specific accounting and disclosure matters that are considered to go beyond the requirements of [FRS 102](#) and [FE and HE SORP](#).

i) Legal status

The college must include details of its legal and charitable status.

ii) Public benefit

If a charity, the college must provide a statement that it has had due regard for the Charity Commission's guidance '[Charitable purposes and public benefit](#)'. It must also provide a report on how the college has delivered its charitable purposes for the public benefit.

iii) Plans for future periods / reserves policy

We encourage transparency in college accounts, which should, where appropriate, include plans for student recruitment, cost saving and efficiencies such as shared services and structural change.

We also encourage colleges to review their reserves policy and the level of reserves held, setting out, where appropriate, how these align with strategic plans and, if a charity, to the Charity Commission's guidance '[Charity reserves: building resilience](#)'.

iv) Staff numbers and costs

Colleges must disclose in the notes to the accounts the average staff numbers employed by the college in the year, categorised by role. This disclosure is in line with the Companies Act 2006 section 411. The figures must be the average headcount for each category, calculated on a monthly basis.

The notes must also disclose the total staff costs of the college relating to the year, broken down between:

- wages and salaries paid or payable to staff members
- social security costs incurred by the college on their behalf
- pension costs

v) Remuneration of key management personnel and high-paid staff

In addition to disclosure requirements set out in the relevant [FE and HE SORP](#), colleges must disclose in the notes to the accounts:

Key management personnel

In the interests of public accountability, institutions are required to disclose the following in the staff costs note of their audited financial statements:

- a) aggregate emoluments received by key management personnel, split by type of emolument, both including and excluding pension contributions
- b) aggregate emoluments due to key management personnel, but waived
- c) justification for the total emoluments linked to value and performance delivered, alongside an explanation of the processes adopted for judging performance and total emoluments, including benchmarking or other means of comparison to the broader market

Where previous key management personnel continue to receive emoluments in an employed or consultancy role, such as in an advisory or sabbatical role, this must be disclosed, with an explanation. For the avoidance of doubt, where in exceptional circumstances, a senior leader is appointed on a short term basis and is not directly employed by the college itself, their emoluments must also be disclosed.

Accounting officer

Colleges must separately disclose emoluments of the accounting officer (and of the highest-paid member of key management personnel in the unlikely event this is not the accounting officer), both including and excluding pension contributions. Colleges must breakdown this disclosure by emolument type (see (e) below) in their accounts. Severance payments and compensation for loss of office paid to the accounting officer and, if different, the highest-paid member of key management personnel must also be separately disclosed.

A justification for the total emoluments of the accounting officer must be disclosed, linked to value and performance delivered, alongside an explanation of the processes adopted for judging performance and total emoluments, including benchmarking or other means of comparison to the broader market.

Where there has been more than one accounting officer during the period, the emoluments of each must be disclosed separately, together with their start and end date.

Where a previous accounting officer continues to receive emoluments in an employed or consultancy role, such as in an advisory or sabbatical role, this must be disclosed with an explanation.

Where the accounting officer of the college is employed by or directly remunerated by another organisation, such as a higher education institution, then the college must still disclose in its financial statements and in the Finance Record the emoluments that person received as the college accounting officer and provide an explanatory note.

Pay multiple

Colleges must disclose the relationship between the accounting officer's emoluments (or those of the highest-paid member of key management personnel, if this is not the accounting officer) and that of all other employees as a pay multiple, expressed as follows:

- a) accounting officer's basic salary divided by the median pay of all other college employees (all on a full-time equivalent basis); and

- b) accounting officer's total emoluments divided by the median pay of all other college employees (all on a full-time equivalent basis)

The college must briefly explain the basis of their methodology and any exceptions applied, such as agency workers.

Higher-paid staff

Colleges must disclose the number of higher-paid staff whose emoluments received in the year (excluding any employer pension costs) fall within each band of £5,000 from a starting point of £60,000. If a part-time member of staff received less than £60,000 in the year but would have received at least £60,000 on a full-time basis, this should be set out as a narrative disclosure within the note.

Likewise, if a member of staff only worked for part of the year, but the full-year value of their remuneration would have been at least £60,000 on a pro-rata basis, this too must be set out as a narrative disclosure within the note, covering the same points.

Definitions for staff numbers and costs

Emolument types include:

- a) basic salary
- b) fees
- c) performance-related pay and other bonuses, including any deferred payment arrangements and separate disclosure of any amounts waived
- d) expense allowances (to the extent that they are chargeable to UK income tax)
- e) pension contributions
- f) payments in lieu of pension contributions
- g) any sums paid under any pension scheme in relation to employment with the college
- h) monetary value of any taxable benefits other than cash (for example, company cars, subsidised loans and accommodation)
- i) employee benefits provided by, or on behalf of, the college
- j) any other type of emolument and cost to the college of providing each type, for example, loss of benefits, ex-gratia, consultancy, agency payments, accepting office ('golden handshake'), relocation costs and dividends or 'off payroll'
- k) monetary value of any non-taxable benefits available only to key management personnel or higher-paid staff
- l) any of the above provided by any subsidiaries, joint ventures or other related entities

Emoluments do not include:

- a) adjustments arising from FRS 102 (section 28) otherwise included in the staff costs note
- b) employer's national insurance contributions (NICs)

- c) compensation for loss of office
- d) salary sacrifice arrangements

Colleges must, however, disclose separately any salary sacrifice arrangements, or if there are no such arrangements a statement to that effect.

Teaching and learning department staff

These staff are defined as those whose primary contractual responsibility is teaching or learning, and/or who spend at least 10% of their time in a teaching or learning activity. They may also have other responsibilities, including organisation and line management (e.g. Head of Department etc.).

vi) Compensation for loss of office

Disclosure requirements

Colleges must disclose details of any compensation for loss of office, loss of any other office connected with college affairs and/or connected with the affairs of a parent or subsidiary undertaking of the college; where paid or payable to the accounting officer, key management personnel (both past and present) and staff earning at least £60,000 per year. Colleges must disclose:

- a) the aggregate value of any compensation for loss of office paid or payable to these staff (excluding payments in lieu of notice)
- b) the number of people to whom this was paid or payable
- c) the nature of any benefits other than cash

Compensation for loss of office includes:

- a) the estimated money value of benefits other than cash
- b) compensation in consideration for, or in connection with, retirement
- c) any top-up or enhancement to the pension scheme

If any such payments include non-statutory/ non contractual elements, these must be disclosed as part of the severance payments disclosure.

Severance payments

Severance payments include contractual payment, statutory payments and special staff severance payments. Special staff severance payments are amounts paid to employees outside of statutory and contractual requirements.

Colleges are required to disclose:

- a) all severance costs, split between contractual and non-contractual payments
- b) special staff severance payments – amounts outside of statutory and contractual requirements regardless of value

- c) whether these were approved by the Board or a committee established by the college for this purpose.

Colleges/college groups must disclose all severance payments made by the college/college group during the period of the financial statements, in the bands below:

Example: The college/college group paid 5 severance payments in the year, disclosed in the following bands:

Severance payment amount	Number of payments made
£0 - £25,000	4
£25,001 - £50,000	1
£50,000 - £100,000	0
£100,001 - £150,000	0
£150,000 +	0

Colleges / college groups must also disclose the individual value of all special staff severance payments (which are amounts paid to employees outside of statutory and contractual requirements) made by the college / college group during the period of the financial statements. This is regardless of value (and even when these payments form (part of) the payment included in the note above).

The names of the recipients do not need to be disclosed. A model disclosure is included below, noting that the amounts are not rounded. A note is not required if no transactions arose.

Included in staff restructuring costs are special severance payments totalling £15,000 (2023: £nil). Individually, the payments were: £1,000, £4,000, £4,000 and £6,000.

vii) Transactions with governors / trustees

All transactions with governors must be disclosed. This includes routine reimbursement of travel expenses or similar costs incurred in connection with their duties as a governor, such as the costs of childcare incurred to attend college meetings. However, compensation for loss of earnings requires additional authority and before making such a payment, the college must:

- be satisfied that there is no remunerative element
- if a remunerative element exists, gain express permission from Charity Commission
- have due regard to the Charity Commission guidance '[Trustee expenses and payments](#)'

Colleges must disclose details of any such payments made (including the total of such payment and number of governors/trustees who received the payments), or if none a statement to that effect.

viii) Related party transactions

Colleges must follow the requirements of FRS102 and the [FE and HE SORP](#) for disclosure of their transactions and balances with related parties.

Where there have been no related party transactions at all colleges must make a statement to this effect.

Paragraph 25.5 of the [FE and HE SORP](#), which derives from the FRS 102 paragraph 33.1A exemption for the reporting of related party transactions and balances between two or more members of the same group in the case of wholly owned subsidiaries, is set aside.

Where the college is part of a group, all intra-group transactions and balances must be reported, including those with:

- a) any wholly owned subsidiaries the college might have,
- b) any fellow subsidiaries in a group structure in which the college is itself a subsidiary, and
- c) any parent entity the college might have, such as a higher education institution.

ix) Accounting for government grants

In addition to disclosure requirements set out in the [FE and HE SORP](#), colleges must disclose in the notes to the accounts:

- a) deferred income relating to government grants as separate items, distinct from other accruals and deferred income, split between under and over one year
- b) the income recognised in any period related to government grants as separate items in an analysis of income from funding body grants

In each case, colleges must distinguish deferred income relating to government grants between amounts related to capital and revenue grants.

x) Consortium income

There are an increased number of consortium arrangements in place, for example, where colleges are lead providers in Worked Based Learning consortia. If the institution is acting as the lead in the consortium, it should only include its own income earned in the income and expenditure account, not that passed onto other consortium members. An extra note under the funding council grants note will be required to detail consortium income as follows:

'The institution is the lead partner in a consortium to deliver xxxx. The income included in these accounts is earned by the institution in its capacity as a provider and consortium lead. All other income relating to the consortium and payable to consortium members has been excluded from the accounts. Total income claimed in the year and the related payments to partners was as follows:

Total income	x
Payments to FE partners	x
Payments to non-FE partners	x
Net income	x

Where there is not a consortia arrangement, but an institution is the lead in a Work Based Learning contract, then the total income should be recorded in the income and expenditure account, however the amount paid to other providers as subcontractors should be included in a note to the accounts as above.

xi) College's financial review

The [FE and HE SORP](#) requires a fair and balanced strategic report on the college's development, performance and position to be disclosed. This report may be entitled a strategic report, a financial report, a members' report etc. However, irrespective of its title, this report should be produced in accordance with the principles set out in paragraph 3.23 to 3.26 of the [FE and HE SORP](#); namely that it should be user-focussed, consistent with and complementary to the financial statements, comprehensive, understandable and balanced.

As best practice, the financial review within this report should:

- a) explain the financial effect of significant events on the financial performance and financial position of the college
- b) explain the overall financial position of the college at the reporting date with a narrative which provides context to, and insight on, the numbers in the financial statements, focussing on material or significant balances
- c) identify any subsidiary undertaking or joint venture that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to address it
- d) explain the financial performance of the college in the year, including an explanation of the causes of the college's net income/(expenditure) balance for the year
- e) describe the principal funding sources of the college
- f) be written in terms which a non-accountant would understand

xii) Disclosures in relation of pension schemes

Local Government Pension Scheme (LGPS)³

Payments to fund a deficit in the LGPS

Colleges must note the requirements of FRS102 in relation to disclosures about defined benefit pension plans, such as the Local Government Pension Scheme. In particular, that paragraph 28.41(a) requires a general description of the type of plan, which must include the college's funding policy. We draw attention to the obligation for college to disclose the amount and timing of future payments to be made by the entity under any agreement with the defined benefit plan to fund a deficit.

Recognition of LGPS fund surplus as an asset

While it has been the norm for some years for colleges to report a deficit in the value of their LGPS fund, more recently market conditions have resulted in some colleges being informed by the relevant scheme that their fund has moved into a surplus position. Colleges in this position should consider the provisions of paragraph 28.22 of FRS 102 and note the constrained circumstances that allow for the recognition of any such surplus as an asset: whether it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. Having considered the circumstances and come to its conclusion, the college should consider:

- a) disclosing in accounting policy note 1, as part of their critical areas of judgement, the basis for its conclusion regarding recognition, and
- b) including in the LGPS section of the pension funds note an explanation of the extent to which any net LGPS surplus has/has not been recognised in the financial statements as a pension asset, including where the net asset value has been restricted.

Teachers' Pension Scheme (TPS)

The UK Government Actuary conducts a formal actuarial review of the TPS every 4 years. The aim of the review is to ensure scheme costs are recognised and managed appropriately and the review specifies the level of future contributions.

As a result of the last scheme valuation, based on 2020 data, employer contribution rates were increased in April 2024 from a rate of 23.6% to 28.68% of pensionable pay. Employers also pay a charge equivalent to 0.08% of pensionable salary costs to cover administration expenses.

The latest valuation report is available on the [Teachers' Pensions website](#).

The next valuation, based on 2024 data, is expected to take effect in 2027.

³ The Scheme Advisory Board, along with ICAEW, have published an [LGPS informer document](#) which can be accessed via the link. The document explains the timeline and information flow for the triennial valuation and accounting / audit purposes.

xiii) Environmental reporting

Colleges should include commentary on the steps taken and planned to ensure wider sustainability of social and environmental resources. This may include, but not be limited to, a statement of the net zero target of the college (where this has been publicly stated) and progression towards achievement of this. Areas to consider might include improvements in the efficiency of estates, energy usage, waste minimisation, resource efficiency, water usage, procurement, biodiversity, travel and reduction of other environmental impacts. We refer institutions to [Welsh Government guidance](#) in this area, which identifies prioritisation based on the classification of direct emissions (scope 1), indirect emissions (scopes 2 and 3), the Land Use, Land Use Change and Forestry and the [Standardised Carbon Emissions Framework \(SCEF\) for further and higher education](#) and the [Task Force on Climate Related Financial Disclosures](#). ESFA published guidance on [streamlined energy and carbon reporting for colleges](#), which includes a sector-relevant model disclosure note.

xiv) Financial contingency fund

Colleges must make a disclosure in their financial statements about the financial contingency funds they have distributed in line with the model disclosure below:

'The institution acts as paying agent in the administration and distribution of certain financial contingency funds available solely for learners. The grants and related disbursements shown below are therefore excluded from the statement of comprehensive income:

	2025	2024
	£'000	£'000
Grants received	x	x
Grants disbursed to students	x	x
Administration costs	x	x
Grants brought forward	x	x
Repaid to Medr	x	x
Grants carried forward	x	x

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