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Dear Sirs

Accounting for Further and Higher Education Statement of Recommended Practice Exposure Draft (SORP2015 ED)

Deloitte LLP is pleased to respond to the Further and Higher Education SORP Board's SORP2015 ED. We have set out our detailed responses to the consultation questions in the Appendix.

We support the consistent application of reporting frameworks, such as FRS 100 and FRS 102, across all reporting entities within the UK, and that a Further and Higher Education SORP is required to provide additional guidance for that sector.

We also support the alignment of the treatment of grants receivable by the Further and Higher Education sector with that of the rest of the not-for-profit sector.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions or comments, please contact David Hall on 0115 936 0798.

Yours faithfully



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Appendix – Response to consultation questions

Question 1: Do you have any general comments, specific issues or remarks you would like to make on the SORP2015 ED?

Early adoption of FRS 102 and the SORP2015

The SORP is silent on whether entities must adopt SORP2015 if they are able to adopt early FRS 102, or whether entities should continue to apply the existing SORP (which is inconsistent with FRS 102). Guidance around this would be welcome.

Option to adopt IFRS

Paragraph 1.5 refers to an institution choosing to comply with IFRS as adopted by the EU. We understand that this would not be possible for institutions that are incorporated under the Companies Act, which states in section 395(2) that “[t]he individual accounts of a company that is a charity must be Companies Act individual accounts” and in section 403(3) “[t]he group accounts of a parent company that is a charity must be Companies Act group accounts”.

FRS 102 terminology

The SORP uses a number of old UK GAAP terms such as “stocks” and “tangible fixed assets” rather than the equivalent terms in FRS 102. We recommend that the new terms in FRS 102 are used in the SORP. The old terms could be included in a glossary with cross references to the new terminology.

Furthermore, paragraphs 1.14, 1.15 and 1.16 of the SORP identify the distinction between the words “must”, “should” and “may”. As FRS 102 uses the term “should” in a number of places, we do not believe that it is helpful for the word “should” to have a different meaning in the SORP and in the accounting standard on which the SORP seeks to provide guidance.

Disclosure requirements

Specific disclosure requirements are spread throughout the sections of the SORP in an inconsistent manner and some merely refer back to the disclosure requirements as stated in FRS 102. This makes it difficult to see the complete picture of disclosures required. We would welcome more clarity in this regard, for example by including a sub-heading in each section for disclosure requirements.

Exemptions available to the parent institution (3.2-3.3)

The SORP entitles parent institutions to be exempt from preparing a parent institution Statement of Comprehensive Income and a Cash Flow Statement where group accounts are prepared. We recommend that this section also states explicitly that parent institutions can take all of the disclosure exemptions available in paragraph 1.12 of FRS 102.

Operating and Financial Review (3.15-3.18)

We suggest that the OFR should be renamed as the “Strategic Report” to bring it in line with the new strategic report that will be required for large and medium-sized charitable companies for periods ending on or after 30 September 2013. We recommend that specific thought be given to aligning with the contents and headings of the strategic report where possible.

Going concern (3.19-3.20)

While there is some mention of going concern in the above sections, it would be helpful if the SORP explicitly referred to the FRC guidance on going concern. By including a reference to the FRC guidance,

this will give additional guidance to trustees on matters to consider and will also “future proof” the SORP against any future changes made to the FRC guidance.

Investment property (10.3)

The SORP implies that it is possible for one asset to have more than one purpose and therefore in part meet the definition of investment property. Paragraph 16.4 of FRS 102 confirms that mixed use property shall be separated between its investment property and property, plant and equipment components and accounted for as such. We would welcome further clarification within paragraph 10.3 of the SORP as to whether this split accounting would be appropriate for assets which have more than one purpose, or an element of external income.

Other long-term employee benefits (20.27)

Both FRS 102 and the SORP cite sabbatical leave as an example of an other long-term employee benefit which must be recognised as a liability over the relevant period of service. We disagree that this is relevant for all cases of sabbatical leave as many higher education institutions view sabbatical leave as continuing employment (rather than compensated absences) where the employee is still working for the institution (through research or furthering their own knowledge), even though there may not be any tangible output during this time. In such instances, employee benefits received during sabbatical leave would be accounted for as a short-term employee benefit and we would welcome further clarification around this point.

Typographical errors

We note that page 75 still refers to “KPMG” in the header.

Question 2: Do you agree with the SORP Board’s proposal to adopt a single “Statement of Comprehensive Income”?

Yes. We also recommend that the statement be headed “Statement of Comprehensive Income” as per paragraph 2.23 of FRS 102 as opposed to “Statement of Income and Expenditure, and other Comprehensive Income”.

Question 3: Do you agree with the SORP Board’s proposal of having a sub-total showing total income before grants and donations on the face of the Income statement?

Yes. However, there is no definition of “other grant income” within the SORP and a wide scope for interpretation could result in significantly differing practice across the sector. Clarification should be provided in the SORP as to the type of grant income which should be presented within “Donations and other grant income” on the face of the Statement of Comprehensive Income.

Question 4: Do you agree with the SORP Board’s proposal that the primary statements should be based on a single column presentation?

Yes. However, we recommend that the analysis of total comprehensive income for the year between endowment comprehensive income, restricted comprehensive income and unrestricted comprehensive income be moved from the face of the Statement of Comprehensive Income to the notes in order to avoid any confusion.

Question 5: Do you agree with the SORP Board's proposal that student accommodation should be classed as property, plant and equipment rather than investment property in group financial statements?

Yes. We are not aware that classifying student accommodation as investment property is a widespread practice across the sector under the existing SORP.

Question 6: Do you agree with the SORP Board's proposal to show gains and losses on the disposal of property, plant and equipment after total expenditure but before the net surplus for the year?

Yes. We consider this to be an appropriate application of the principles of FRS 102.

The SORP is silent on the presentation of investment gains and losses within the Statement of Comprehensive Income. Acknowledging that FRS 102 would not permit net losses to be shown within total income, we would welcome clarification within the SORP around where investment gains and losses should be presented.

Question 7: Do you agree with the SORP Board's proposal to not permit the accrual model for Government grants or would you prefer the SORP to not restrict any FRS102- permitted accounting policy choices and leave it to individual regulators to come to their own view on whether or not they wished to restrict accounting policy choices via their Accounts Directions?

Yes. We support the SORP Board's proposal as it would bring the accounting within the Further and Higher Education SORP in line with that currently applied by the Charities SORP.

We note, however, that the application of the accrual model for Government grants is widespread across the sector and therefore this proposal will result in significant changes, potentially changing previously recognised surpluses into deficits, and reducing the comparability with prior year financial statements. This could encourage the presentation of non-GAAP measures where the non-GAAP measures would revert back to the accruals model. Both FRS 102 and the SORP are currently silent on the use of non-GAAP measures and we recommend that guidance around the presentation of non-GAAP measures be considered for inclusion within the SORP.

Question 8: Do you agree with the SORP Board's proposal that a time condition stipulated by grantors and donors is a performance condition?

Overall, yes. However, we note that in many scenarios we do not consider time itself to be the performance condition; rather that it is a proxy for the output of the underlying activity which should be the real measure of the performance condition.

Question 9: Do you agree with the SORP Board's proposal to show two lines on the face of the balance sheet, one capturing provision for pension liabilities, the other showing all other provisions for liabilities?

Yes. We note that the Charities SORP exposure draft (July 2013) proposes a slightly different presentation on the face of the Balance Sheet, namely the inclusion of a sub-total "Net assets or liabilities excluding pension asset or liability" which comes after provisions for other liabilities and before the defined benefit pension scheme asset or liability. Given that FRS 102 now removes the previously available multi-employer exemption, likely to result in more reporting entities recognising a provision for their pension liabilities, it may be appropriate to consider separating out this line item as is proposed within the Charities SORP.

Question 10: Do you agree with the SORP Board's proposal that the key management personnel compensation disclosure be defined as an institution's senior management team?

Yes. However we would challenge whether disclosure of one total remuneration figure for the senior management team as a whole provides much useful information to users of the financial statements, given the senior management teams within different higher education institutions can differ significantly in size and therefore these total figures would not be easily comparable. It would be more useful for a total remuneration figure to be accompanied by, for example, detail of how many individuals are included within the senior management team. The current remuneration banding disclosures are more useful than providing total figures for undisclosed numbers of personnel.

Question 11: Would you support adopting a more comprehensive remuneration disclosure regime for higher paid staff, and for trustees, in the SORP? If so, what disclosures should be made?

As noted above, we believe that the current remuneration banding disclosures already provide useful information. We recognise the differences around the setting of remuneration within the Further and Higher Education sector compared to the private sector, such as a university's Council determining remuneration for key management personnel, rather than shareholders of listed companies who may wish to provide input into remuneration levels (through the shareholders' approval of the directors' remuneration policy, as now required under the Companies Act 2006). Therefore, the level of remuneration disclosure within the Higher Education sector need not be as comprehensive as required by the private sector.

We also recommend that should further remuneration disclosures be required, they should all be made in one place within the annual report in order to increase the user's understandability. In addition, we recommend that all disclosure requirements in respect of remuneration are included within the SORP directly, rather than being included in various funding bodies' annual accounts directions.

Question 12: Do you agree with the SORP Board's interpretation of FRS102 with respect to how service concession arrangements should be accounted for?

Yes. From our clients' experiences, we note that the accounting for service concession arrangements is not itself the issue, but whether an arrangement meets the definition of a service concession arrangement in the first place (for example, some arrangements held with NHS Trusts are not always made in writing). As such we anticipate that there would be practical issues in implementing the proposed accounting associated with identifying concession agreements.