























WEATHERBURY COLLEGE

MANAGEMENT ACCOUNTS FOR THE PERIOD TO 31 JANUARY 2021

1. Headlines

EXECUTIVE SUMMARY			
Indicator	Current Status	RAG	Change
Income & Expenditure Account			
Operating surplus/deficit (excl. FRS102)	Forecast outturn is £242k behind budget at £262k deficit.		
Income	Total income is £202k lower than budget and forecast to be £356k lower than budget by the end of the year. Main issues are AEB and HE.		
Pay costs	Total pay costs are £84k less than budget after 6 months and this is forecast to further improve to £216k under budget by the end of the year.		
Non-pay costs	Non-pay costs currently £28k over budget, and forecast to be £110k higher than budget by the end of the year. Small overspends forecast on several lines.		
EBITDA	EBITDA is a £37k deficit at 31 January 2021. Forecast for the year is a surplus of £655k (3.2% of income) which is £250k worse than budget.		
Balance Sheet			
Cash	Year end balance will reduce by £700k as insufficient cash being generated to cover debt servicing and planned capital expenditure. Cash will be £200k lower than budget.		
Capital Programme	All planned capital expenditure on track		
Asset Disposals	No major asset disposals planned		
Loan facilities	No new loan facilities planned		
Covenant compliance	Current full year forecast indicates that the college will breach two of the three covenants. Discussions are planned with both the bank and external auditors.		
ESFA Financial Health			
Financial health	Full year forecast is for 120 points which is the lowest score for grade of 'Requires Improvement'. A further small worsening of the EBITDA position for the year could cause the financial health grade to slip to 'Inadequate'.		

The operating performance for the year to date is an operating deficit of £575,000, which is £150,000 adverse to budget. This is principally accounted for by a shortfall in income to date of £202,000. The adverse performance to date is forecast to continue to year-end, the base case estimate is a forecast operating deficit for the year of £262,000 (£242,000 adverse to budget). Pay costs although lower than budget is forecast to be c68% of total income which is higher than the FEC financial benchmark of 65%.





The forecast deficit is projected to result in a breach of loan covenants at year-end. The college is actively engaged with the bank to secure a waiver pending further dialogue to review the current covenants and loan facilities. If agreement cannot be reached with the bank to maintain existing terms the reclassification of colleges into the public sector means we will need to approach DfE to request a replacement loan.

Financial health is forecast to remain requires improvement, though with minimal headroom above the threshold for inadequate. Failure to secure timely agreement with the bank and external auditors would almost certainly result in a decline in the financial health grade to inadequate.

Cash reserves are relatively healthy at £2.09 million at the end of January 2021 and remain adequate to cover the normal March/April pinch point. The weak operating performance remains however a serious concern, that will steadily erode cash reserves over time unless the college can improve its underlying operating performance.

Targeted actions are being implemented aimed at reducing costs in-year by £242,000 and closing the projected shortfall in Adult Education Budget (AEB) income. Taken together these could achieve a small operating surplus by year-end of £119,000 (best case). However, in the event that further possible shortfalls in income by year-end materialise, there is a risk (worst case) of the operating deficit increasing to £676,000.

2. Financial Health

ESFA Financial Health	Budget		Forecast		RAG	Headroom
	Ratio	Points	Ratio	Points		
Solvency (adjusted current ratio)	0.89	40	0.83	40		Net current assets down by £133k
Performance (EBITDA as % of adjusted income)	4.3%	40	3.2%	30		EBITDA down by £37k
Borrowing (as % of adjusted income)	37.7%	50	38.3%	50		Income down by £870k or borrowing up by £351k
Total Points		130		120		
Automated Financial Health Grade	Requires Improvement		Requires Improvement			
Self-Assessed Financial Health Grade	Requires Improvement		Requires Improvement			

The full year forecast predicts a financial health score of 120 points, which is the lowest point for being assessed as 'requires improvement'. Again, it is the adverse EBITDA performance which has reduced the autoscore from the budgeted position. The significant concern as shown in the headroom column

above is the very high risk that any further slippage will cause the college to be assessed as inadequate. A further deterioration in the EBITDA performance of just £37k could trigger this.

3. Income & Expenditure

INCOME & EXPENDITURE ACCOUNT FOR THE 6 MONTHS TO 31st JANUARY 2021								
	Cumulative YTD			Full Year			Prior Year	
	Actual	Budget	Variance	Forecast	Budget	Variance	To Jan 20	To July 20
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
INCOME								
ESFA 16-18: Main Allocation	6,511	6,511	0	13,022	13,022	0	6,389	12,778
ESFA Adult Education Budget (AEB)	1,270	1,345	(75)	2,848	2,987	(139)	1,348	2,995
Apprenticeships - 16 - 18	258	275	(17)	511	547	(36)	434	903
Apprenticeships - Adult	170	182	(12)	344	364	(20)	268	545
LA High Needs	221	221	0	442	442	0	195	390
LA 14-16	5	20	(15)	13	39	(26)	31	66
OFS	112	112	0	225	225	0	125	250
Other Funding body grants	99	99	0	198	198	0	82	163
Devolved AEB	-	-	0	-	-	0	-	-
HE Tuition Fees	952	997	(45)	1,901	1,993	(92)	1,107	2,215
Adult Learner Loans	171	173	(2)	344	347	(3)	175	355
Apprenticeship fees	49	60	(11)	101	120	(19)	89	184
Full Cost Fees	88	108	(20)	244	270	(26)	138	320
Other tuition fee income	69	78	(9)	160	173	(13)	85	179
Other grants, contracts & projects	-	-	0	-	-	0	-	-
Exam fees, materials & other student income	30	31	(1)	42	44	(2)	21	32
Catering Income	72	70	2	145	140	5	86	173
Nursery Fees	70	67	3	130	115	15	79	142
Other Income	-	-	0	-	-	0	-	-
Other Income	-	-	0	-	-	0	-	-
Other Income	-	-	0	-	-	0	-	-
Other Income	-	-	0	-	-	0	-	-
Other Income	-	-	0	-	-	0	-	-
Other Income	-	-	0	-	-	0	-	-
TOTAL OPERATING INCOME of which is from sub-contracting	10,147	10,349	(202)	20,670	21,026	(356)	10,709	21,803
PAY	84	84	0	300	300	0	99	305
Teaching - Establishment	3,248	3,295	47	6,490	6,591	101	2,975	5,971
Teaching - Sessional	703	670	(33)	1,305	1,273	(32)	699	1,274
Teaching - Agency (Invoiced)	42	50	8	99	118	19	55	132
Non Teaching - Establishment	2,871	2,935	64	5,743	5,869	126	2,936	5,842
Non Teaching - Agency	59	60	1	76	81	5	41	56
Nursery Staff	45	44	(1)	91	88	(3)	43	86
Catering Staff	48	46	(2)	92	92	0	45	90
Restructuring Costs	-	-	0	-	-	0	-	-
LGPS Deficit payment	-	-	0	-	-	0	-	-
TOTAL PAY	7,016	7,100	84	13,896	14,112	216	6,794	13,451
NON PAY								
Education Supplies & services	477	492	15	765	798	33	510	851
Student related costs	194	190	(4)	361	347	(14)	181	359
Exam/registration/EPA Charges	223	243	20	496	487	(9)	280	625
Central Administration	817	795	(22)	1,606	1,576	(30)	832	1,691
Marketing	242	220	(22)	355	340	(15)	257	424
Premises Costs	901	886	(15)	1,788	1,755	(33)	862	1,745
IT	195	185	(10)	405	374	(31)	222	390
Sub Contractor/Partner Costs	65	80	15	240	240	0	74	240
Nursery Costs	15	14	(1)	29	27	(2)	23	45
Catering costs	39	35	(4)	74	65	(9)	47	89
TOTAL NON PAY	3,168	3,140	(28)	6,119	6,009	(110)	3,288	6,459
TOTAL EBITDA (Education Specific)	(37)	109	(146)	655	905	(250)	627	1,893
EBITDA as % of Income	-0.4%	1.1%		3.2%	4.3%		5.9%	8.7%
Other Items								
Release of Capital Grants	51	51	0	102	102	0	51	102
EFS or RF Grant income	-	-	0	-	-	0	0	0
Surplus/(deficit) before ITDA	14	160	(146)	757	1,007	(250)	678	1,995
Investment Income	7	9	(2)	12	15	(3)	12	22
Depreciation	360	360	0	715	720	5	365	729
Interest Payable	236	234	(2)	316	322	6	233	461
Operating Surplus/(deficit) after ITDA	(575)	(425)	(150)	(262)	(20)	(242)	92	827
Pension adjustments								
Income - Pension Finance	0	0	0	0	0	0	0	0
Staff costs - FRS102	0	0	0	(650)	(650)	0	0	(650)
Non Pay - FRS 102 & other pension	0	0	0	(139)	(139)	0	0	0
Net pension adjustments	0	0	0	(789)	(789)	0	0	(650)
Surplus/(Deficit) after pension adjustments	(575)	(425)	(150)	(1,051)	(809)	(242)	92	177

I & E Key Full year forecast variances to Budget as at 31st January 2021			
Key Variances	Year to date	Year end forecast	Notes
Original budgeted operating surplus excl FRS 102	-20	-262	Variance from budget is £242k adverse
Main Variances	Better/Worse v Budget		
AEB	Worse	-139	Forecast outturn is 95% of contract - potential clawback in Dec 21
Apprenticeships	Worse	-56	New starts behind on profile
HE Fees	Worse	-92	FT Learner numbers are 10 lower than target
Other income lines	Worse	-69	LA 14-16 schools not willing to pay (£26k), full cost fees lower take up on course offer (£26k), apprenticeship fees (£19k) lower new starts
Total Income Variances		-356	Overall 2% below budget
Expenditure Variances			
Teaching pay costs	Better	69	1% underspend, due to unfilled vacancies partially offset by higher sessional staff
Non teaching pay costs	Better	126	2% underspend due to slower filling of vacant roles
Agency staffing	Worse	24	Lower need than anticipated
Other staff	Better	-3	Nursery staff
Central admin	Worse	-30	Overspends on photocopying and stationery - 2% overspend
Marketing	Worse	-15	Additional radio campaign to try and make up student target shortfall
Premises	Worse	-33	Increased in utility charges, and some urgent maintenance work on main site 2% overspend
IT	Worse	-31	8% overspend - increased requirement for additional student laptops
Education supplies & Services	Better	33	4% underspend - Saving across curriculum areas to offset IT overspend
Other Non pay lines	Worse	-34	Student related costs £14k over, Exam fees £9k over
Total Expenditure Variances	Better	106	Overall 0.5% better than budget
Other	Better	8	Depreciation and interest
Total of all variances		-242	Budgeted deficit £20k, Forecast deficit is £262k

Income

Total income is £202,000 lower than budget year to date but is partially offset by an underspend on pay expenditure of £84,000. Total non-pay expenditure is slightly overspent by £28,000. This means that the year to date operating deficit is £150,000 worse than budget. The two main issues on income so far are in AEB and HE fee income. The AEB income is tracking around 6% behind plan at the moment, and whilst we expect to see some minor recovery of that position in the remaining months of this financial year, we are forecasting to finish the year at around 95% of contract. Despite increased marketing of the AEB offer the competitive nature of the local market has created difficulties in recruiting learners to some of our courses. We are doing everything we can to minimise costs on these programmes without impacting on the learner experience, but the reality is we have some small group sizes and there is little we can do in year to change this. We will be taking this into consideration as part of our curriculum planning work for 2021/22. The HE fees income is currently £45,000 below budget, and as there is no further in year recruitment of full-time learners, the shortfall of income is expected to increase to £92,000 by the end of the year. The full-time learners are forecast to be 10 fewer than our target. Total income for the year is forecast to be £356,000 lower than budget, a shortfall of approximately 1.7% of total budgeted income.

Pay Costs

Total teaching staff costs are forecast to be £88,000 (1%) underspent by the end of the year, due to unfilled vacancies partially offset by higher sessional

staff, combined with actions planned to minimise costs on remaining AEB delivery where possible. There is also an underspend in non-teaching staff. The budget was prepared on the assumption that all establishment roles would be fully occupied during the year, but recruitment to vacant posts has created some cost savings. Total pay costs as a percentage of turnover are forecast to as planned at 67%. This is 2% over the FEC financial benchmarks. We will be focusing on how we can improve this ratio as part of our budget planning for next year and have targeted a further £82k of in year cost savings through a temporary recruitment freeze unless it is a critical post.

Non-pay costs

The total non-pay expenditure is expected to finish the year £110,000 worse than budget. This is due to several different areas including:

- Central admin - forecast £30k overspend on photocopying and stationery;
- Marketing – forecast £15k overspend on additional radio campaign to try and make up AEB student target shortfall;
- Premises – forecast £33k overspend due to higher than expected increases in utility charges, and some urgent maintenance work on the main site;
- IT – forecast £31k overspend due to an increased requirement for additional student laptops. This has been fully offset by a saving on education supplies and services.

We have requested all budget holders to try and identify in year savings from their remaining budgets, with a college wide target of £160k. we will report on progress with this initiative in the February management accounts.

EBITDA

Total EBITDA is currently showing a deficit of £37k for the year to date and is forecast to be a £655k (3.2% of total income) surplus by the end of the year. This is against a full year budget target of £905k (4.3% of income), a shortfall of £250,000, and £1m lower than last year. The additional targeted cost savings on both pay and non-pay are not included in the full year forecast as we do not yet have certainty on whether they can be delivered.

Learner Numbers

Learner Numbers						
Headcount	Actuals (current year)	Full year budget	Full-year forecast	Full Year actuals (last year)	RAG	Financial Implications
16-19 ESFA	2,780	2,710	2,790	2,820	●	Increase in lagged funding in 2021/22 of c£350k
AEB: ESFA	743	1,230	1,150	1,120	●	Current projection is c95% of contract value, could be a recovery of funds up to c£139k in December 21
AEB: Devolved	-	-	-	-	-	N/A
16-18 Apprenticeships	115	136	128	210	●	New starts currently behind profile, funding shortfall projected as £36k for the year
19+ Apprenticeships	123	145	135	220	●	Budget shortfall will be a maximum of £20k
HE: full-time	128	135	125	162	●	Shortfall in learners likely to result in fee income being c£85k lower than budget
HE: part-time	160	160	155	165	●	Marginally under budget by £7k
Advanced Learner Loans	155	180	180	185	●	Expect funding to be very close to budget

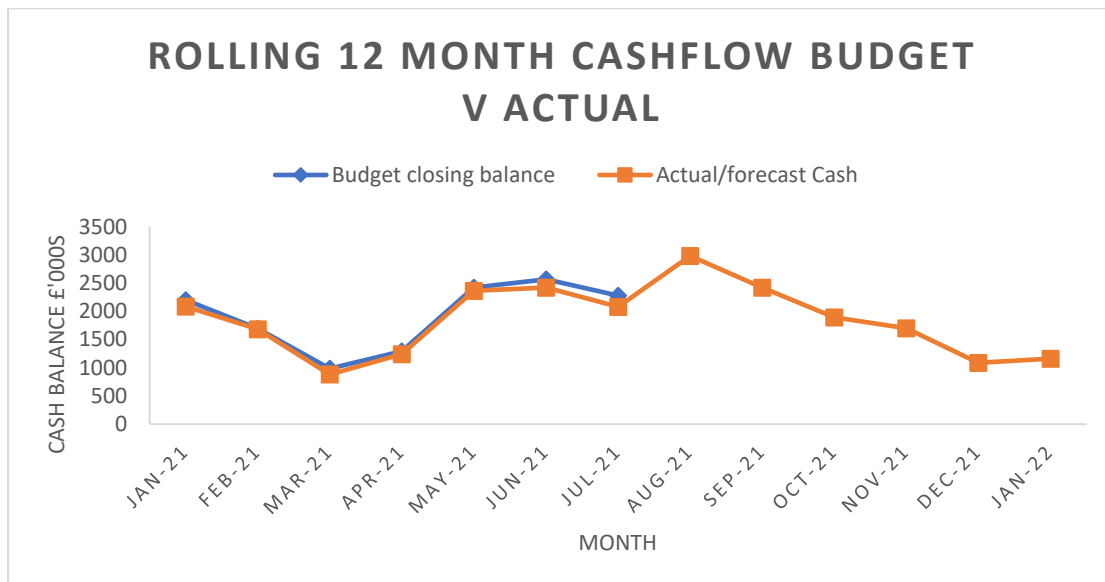
4. Balance Sheet

BALANCE SHEET AS AT 31st JANUARY 2021						
	Opening Balance 1 Aug 2020 £000s	Actual as at January 2021 £000s	Movement ytd £000s	Budget 31 July 2021 £000s	Forecast 31 July 2021 £000s	Variance BudgetvForecast Full year £000s
Fixed Assets						
Land & Buildings	17,849	17,776	(73)	17,702	17,702	
Equipment	690	724	34	818	813	(5)
Total Fixed Assets	18,539	18,500	(39)	18,520	18,515	(5)
Current Assets						
Stock	35	32	(3)	35	35	
Trade Debtors	836	655	(181)	800	750	(50)
Other Debtors & Prepayments	264	302	38	228	240	12
Bank Investments & Cash at Bank	2,780	2,090	(690)	2,281	2,082	(199)
Total Current Assets	3,915	3,079	(836)	3,344	3,107	(237)
Creditors due within one year						
Overdrafts	0	0	0	0	0	
Loans (EFS and RF)	0	0	0	0	0	
Commercial loans	396	396	0	396	396	
Finance Lease obligations	0	0	0	0	0	
Trade Creditors	520	576	56	436	436	
Accruals	1,565	1,401	(164)	1,565	1,565	
Payments on Account	729	756	27	729	729	
Tax & Pensions	241	257	16	241	241	
Fixed Asset Creditors	0	0	0		0	
Recovery due to Funding Agencies	0	0	0		0	
Deferred Income	340	354	14	375	375	
Holiday Pay Accrual	278	278	0	255	255	
Capital Grants less than 1 year	102	102	0	102	102	
Total Creditors due within one year	4,171	4,120	(51)	4,099	4,099	0
Net Current Assets/(Liabilities)	(256)	(1,041)	(785)	(755)	(992)	(237)
Adjusted current ratio	1.03	0.82		0.89	0.83	
Total assets less current liabilities	18,283	17,459	(824)	17,765	17,523	(242)
Creditors: Amounts falling due after one year						
Loans (EFS and RF)	0	0	0		0	
Commercial loans	7,920	7,722	(198)	7,524	7,524	
Finance Lease obligations	0	0	0	0	0	
Other Liabilities	0	0	0	0	0	
Capital Grants	2,539	2,488	(51)	2,437	2,437	
Total Creditors: Amounts falling due after one year	10,459	10,210	(249)	9,961	9,961	0
Total borrowing as % of income	38.1%			37.7%	38.3%	
Provisions						
Net Pension Liability	3,603	3,603	0	4,392	4,392	
Other Provisions			0	0	0	
Total Provisions	3,603	3,603	0	4,392	4,392	0
Total Net Assets	4,221	3,646	(575)	3,412	3,170	(242)
Reserves						
Income and Expenditure Reserve	7,012	6,437	(575)	6,992	6,750	(242)
Pension Reserve	(3,603)	(3,603)	0	(4,392)	(4,392)	
Revaluation Reserve	812	812	0	812	812	
Restricted Reserve	-	0	0	0	0	
Total Reserves	4,221	3,646	(575)	3,412	3,170	(242)

The balance sheet as of 31 January 2021 has net current liabilities of £1.04m, giving a current ratio of 0.82. This is a significant movement from the opening balance sheet position which had net current liabilities of £256k. The main reason is a reduction in the current assets balance of £836k due to less cash, and lower debtors. By the end of the year, we expect net current liabilities to be £992k against a budget of £755k, which is £237k worse than expected. The primary reason for this is the expected under performance as highlighted above causing a lower than planned cash balance at the year end. Forecast current ratio is 0.83 against the budget of 0.89. This shows a deterioration in the solvency position from the start of the year when the current ratio was just over 1.

Debtors	Jul-20	Jan-21	Change	% of total Jan 2021
Current < 30 days	634	448	(186)	68%
30-60 days	123	141	18	22%
60-90 days	42	44	2	7%
Over 3 months	37	22	(15)	3%
Total	836	655	(181)	
Debtors over 3 months have are fully provided for. All debtors below 90 days are currently expected to be fully recoverable.				
Creditors	Jul-20	Jan-21	Change	% of total Jan 2021
Current < 30 days	455	461	6	80%
30-60 days	41	50	9	9%
60-90 days	20	45	25	8%
Over 3 months	4	20	16	3%
Total	520	576	56	
Policy is to pay all suppliers within 30 days unless agreed terms state otherwise. Current balance over 3 months relates to one supplier where there is an outstanding query to resolve on the invoice. This is expected to be resolved in the next month.				

5. Cash



The deterioration in solvency above is a direct impact of reducing cash balances. The current cash balance is just under £2.1m, which represents 38 days cash in hand. Whilst this is still a relatively healthy level of cash, it is declining, and that is not a sustainable position for future planning. The projected cash balance at the year end is very similar to the current balance at just under £2.1m. This will mean that overall cash balances will have

reduced by c£700k for the full year. The low point in the cash forecast is expected to be end of March, with a projected balance of just under £900k, representing 16 days cash in hand. The budget plan for the year committed to utilising some of the cash reserve to provide much needed investment in capital equipment. The budget had planned to generate just over £900k of cash from operations during the year, with the majority of this cash (£720k) being required to meet the loan repayments. The capital budget agreed for the year was £700k meaning that we would need to dip into cash reserves by around £500k this year. The under performance on some income lines means that we will now only generate enough cash in year to meet our debt servicing, with nothing left to go towards our planned capital expenditure. Therefore, we will require c£700k of our cash reserves this year to fund the capex. This underlines the need to improve EBITDA performance going forward to avoid a continuing decline in cash reserves.

Use of Cash Summary 2020/21		
	Budget	Forecast
Cash generation from Operations	907	701
Cash received from interest	15	12
Total Cash available	922	713
Cash used to service debt	(720)	(720)
Cash spent on routine capital	(701)	(691)
Cash Movement excl. major capital projects & new loans	(499)	(698)
Net cash contribution to major capital project	0	0
Cash from Loans/RCF	0	0
Total Cash Movement	(499)	(698)
Cash at Start of Year	2780	2780
Cash at End of Year	2281	2082
Budgeted Cash Movement for Year	(499)	(698)
% cash used to service debt	78%	101%
% cash used for routine capex	76%	97%
Total % use of cash	154%	198%

The cashflow reflects the forecast position in the income and expenditure schedule, including a potential repayment of AEB funding of £139k as it has been assumed the ESFA will revert back to a tolerance threshold of 97% to avoid clawback of funds. This is shown in December 2021.

all amounts £'000s	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Operating Receipts													
ESFA 16-19 Allocation	969	701	698	1,653	1,330	1,133	748	1,936	1,150	1,162	949	762	997
ESFA - AEB	218	158	157	372	300	255	222	424	252	254	208	167	210
Apprenticeships	69	69	69	69	69	69	69	45	74	74	74	74	74
Student Loans (HE & ALL)	31	506	29	29	979	29	29	8	30	30	475	30	30
OFS	19	19	19	19	19	19	19	17	17	17	17	17	17
Other funding body grants	41	31	21	110	74	62	31	35	96	91	84	60	50
Other fees & contracts	54	34	38	35	34	34	12	7	70	99	51	60	55
Other income generating activities	24	24	24	24	25	25	25	-	25	25	25	25	25
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Receipts	1,425	1,543	1,055	2,312	2,830	1,627	1,156	2,472	1,713	1,752	1,882	1,195	1,458
Payroll													
Salaries	705	688	692	688	695	701	666	680	720	720	720	720	720
Pension (TPS & LGPS)	175	170	171	170	173	176	165	170	180	180	180	180	180
HMRC	295	287	288	287	290	295	278	285	300	300	300	300	300
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Staff Restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Payroll	1,175	1,145	1,151	1,145	1,158	1,172	1,109	1,135	1,200	1,200	1,200	1,200	1,200
Operating payments													
Supplier payments	614	675	561	535	456	327	181	178	875	820	775	450	600
Sub Contractor	22	24	25	25	28	28	30	-	24	24	24	24	24
HMRC VAT	-	30	-	-	30	-	-	32	-	-	33	-	-
Prior year funding adjust	-	-	-	-	-	-	-	-	-	-	-	139	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating payments	636	729	586	560	514	355	211	210	899	844	832	613	624
Cash movement on operating activities	(386)	(331)	(682)	607	1,158	100	(164)	1,127	(386)	(292)	(150)	(618)	(366)
Annual Capex													
Payments	25	76	120	70	35	40	-	225	175	60	40	-	-
Grant receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Net expenditure on Capex	(25)	(76)	(120)	(70)	(35)	(40)	0	(225)	(175)	(60)	(40)	0	0
Financing													
Interest received	3	-	-	3	-	-	2	-	-	2	-	-	2
Bank Loan repayments	180	-	-	180	-	-	180	-	-	180	-	-	180
RF/ESFA Loan repayment	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance Leases	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financing	(177)	0	0	(177)	0	0	(178)	0	0	(178)	0	0	(178)
Major Capital Project													
Project payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Net movement on Capital project	0	0	0	0	0	0	0	0	0	0	0	0	0
Net cash movement for period	(588)	(407)	(802)	360	1,123	60	(342)	902	(561)	(530)	(190)	(618)	(544)
Opening Balance	2,678	2,090	1,683	881	1,241	2,364	2,424	2,082	2,984	2,424	1,894	1,704	1,704
Closing Balance	2,090	1,683	881	1,241	2,364	2,424	2,082	2,984	2,424	1,894	1,704	1,086	1,160
Cash Days - Closing balance	38	31	16	23	43	44	38	54	44	35	31	20	21
Total RCF Facility	-	-	-	-	-	-	-	-	-	-	-	-	-
Budget closing balance	2,201	1,698	985	1,290	2,425	2,569	2,281	2,984	2,424	1,894	1,704	1,086	1,160
Actual closing balance	2,090	1,683	881	1,241	2,364	2,424	2,082						

6. Loans

Covenant Measure	Budget 2020/21	Forecast 2020/21	Covenant Met	Headroom	RAG	Movement
Debt Service Cover >1.25	1.26	0.97	NO	Need to generate +£199k of cash to meet covenant or reduce debt costs by c£160k	●	↓
Net borrowings:EBITDA <7.0	6.23	8.91	NO	Need EBITDA to increase by £179k to meet covenant	●	↓
Net Assets (excl. pension liability) >0	3412	3170	YES	3170	●	↓

The long term loan, which currently has an outstanding balance of c£8m is being repaid at a rate of £180,000 per quarter. The full year forecast is projecting that two of the three covenants will be breached. You will recall when the budget was agreed the debt service cover covenants was highlighted as a major risk, as there was virtually no headroom on the ratio. Given the adverse performance it is now very unlikely that we will now be able meet that covenant test. In addition, the forecast EBITDA means that we are also likely to breach the net borrowings to EBITDA ratio. Dialogue is ongoing with the bank to secure a waiver or agreement not to measure covenants at year-end and retain existing terms. If agreement cannot be reached, and the bank loan has to be re-classified as a current liability, this will impact adversely on the solvency ratio and almost certainly push the financial health into inadequate Under reclassification the college will need to approach DfE for a loan if the bank are unwilling to retain existing terms following the breach of covenant.

7. KPIs

KPIs as at 31st January 2021						
Indicator	Actuals YTD	Forecast	Budget / Target (full year)	Variance	RAG	Movement
Operating Surplus/Deficit as % of Turnover	-5.7%	-1.3%	-0.1%	-1.2%	●	↓
Cash Days in Hand	38	38	41	(3)	●	↓
Pay as % of Turnover	69.7%	68.2%	68.1%	0%	●	≡
Education EBITDA (£'000s)	(37)	655	905	(250)	●	↓
Cash Balance (£'000s)	2,090	2,082	2,281	(199)	●	≡
Debtor Days	15	13	14	1	●	≡
Creditor Days	31	26	26	0	●	≡
Staff Numbers (fte's)	329		336	7	●	≡
Staff Utilisation	94.30%	95.00%	95.00%	-0.7%	●	≡
Average class size - overall	12.7	12.5	15	(2.3)	●	≡

It is worth noting that the college is not expecting to meet any of the six FEC financial benchmarks that were recently updated. Whilst these are issued for guidance only, it does signal that the college has some underlying financial weaknesses that we need to address with future financial plans. The KPI schedule also highlights that we are operating average class sizes that are too small, and this must be a key priority to address in curriculum planning for 2021/22 to help improve underlying efficiency.

8. Capital

Capital Budget	Year to date actual £'000	Committed £'000	Total (actual + committed) £'000	Full year budget £'000	Forecast Full Year £'000	Forecast under/ (overspend) £'000
Server Upgrades	34	15	49	60	60	0
New HR System	10	34	44	40	45	(5)
Replacement PCs	141	22	163	250	237	13
Curriculum Equipment	32	28	60	60	67	(7)
Relocation of Electrical	20	0	20	160	140	20
Refectory Upgrade	88	29	117	131	142	(11)
Total	325	128	453	701	691	10

The capital expenditure plan for the year is largely on track, with a small projected underspend of £10k for the year. The refectory upgrade is progressing well and is expected to be ready for full operation after the February half term as planned. There has been a delay to the relocation of electrical due to a supplier issue, and this work will now be completed during the Easter holiday period.

9. Risks and Sensitivities

Risk and Sensitivity as at 31 January 2021				
Forecast Outturn (£'000)	Base case	Best case	Worst case	Comments
ESFA 16-19	13,022	13,022	13,022	<p>The table opposite indicates three scenarios for the forecast out-turn reflecting three key variables:</p> <ol style="list-style-type: none"> 1. AEB income (full achievement of allocation under best case and shortfall of 10% worst case) 2. FE / Full cost fees potential additional shortfall of £50,000 (worst case) 3. Achievement in-year of £82,000 savings in pay costs and £160,000 non-pay costs (best case) <p>The best case scenario would result in an operating surplus of £119,000 i.e. marginally better than budget.</p> <p>The base case scenario (most likely outcome) results in a operating deficit of £262,000 which will trigger a covenant breach. If a waiver can be secured financial health will remain requires improvement.</p> <p>The worst case scenario results in an operating deficit of £472,000 and covenant breach. Even if a waiver is secured, the financial health autoscore would fall to inadequate to a lower EBITDA and a weaker adjusted current ratio.</p>
Adult Education Budget	2,848	2,987	2,688	
Other Grants / LA Income	653	653	653	
Apprenticeships	855	855	855	
Higher Education Grants / Fees	2,126	2,126	2,126	
FE Loans, FE and Full Cost Fees	849	849	799	
Other Income	317	317	317	
Total Income	20,670	20,809	20,460	
Pay Costs (excluding staff restructuring)	13,896	13,814	13,896	
Staff Restructuring Costs	0	0	0	
Other Non-Pay Costs	6,119	5,959	6,119	
Total Operating Expenditure	20,015	19,773	20,015	
Education EBITDA	655	1,036	445	
Release of Capital Grants	102	102	102	
Investment Income	12	12	12	
Depreciation	-715	-715	-715	
Interest	-316	-316	-316	
Operating Surplus / Deficit	-262	119	-472	

The above schedule shows some scenario planning for three key variables in the full year forecast. The best case scenario assumes that we can find the additional costs savings referred to earlier and manage to deliver over 97% of our AEB budget. In this scenario EBITDA would be slightly better than budget, and the college would not be in breach of its loan covenants and financial health would remain as 'requires improvement'. In the worst case scenario, where additional cost savings are not achieved and we suffer further income reductions, the EBITDA position would worsen, cash balances would fall below £2m, and financial health will be 'inadequate'.

10. Issues for further consideration

Summary of Key Financial Risks			Issues for Further Review		
Ref	Risk	RAG rating	Ref	Issue	Timescale
1	Failure to achieve budget targets for 2020/21 leads to a breach of loan covenants that could trigger a decline in to financial health to inadequate	RED	1	Monitoring of forecast loan covenant breach and progress with securing waiver before year-end	July 2021
2	Failure to improve the underlying financial sustainability of the college leading to a possible case for structural change	RED	2	Monitoring of potential for decline in forecast financial health grade for 2020/21 to inadequate (linked to covenant breach)	July 2021
3	Failure to secure agreement with the bank regarding waiver of the forecast covenant breach and/or to revised covenant terms	RED	3	Confirmation of cost reduction actions aimed at achieving target in-year savings of circa £242,000	April 2021 (actions agreed) July 2021 (actions implemented)
4	Limited cash headroom at March/April pinch point which may point to ongoing working capital pressures without corrective action	AMBER	4	Confirmation of strategies to achieve AEB budget targets for 2020/21 i.e. closing projected recovery of £139,000	April 2021 (actions confirmed) July 2021 (actions implemented)

Footnote on appendices

There are three further optional schedules that can be included to cover:

- *Staff numbers*
- *Sub-contracting activity*
- *Trading activities and/or projects*

These are currently shown on a separate excel file.