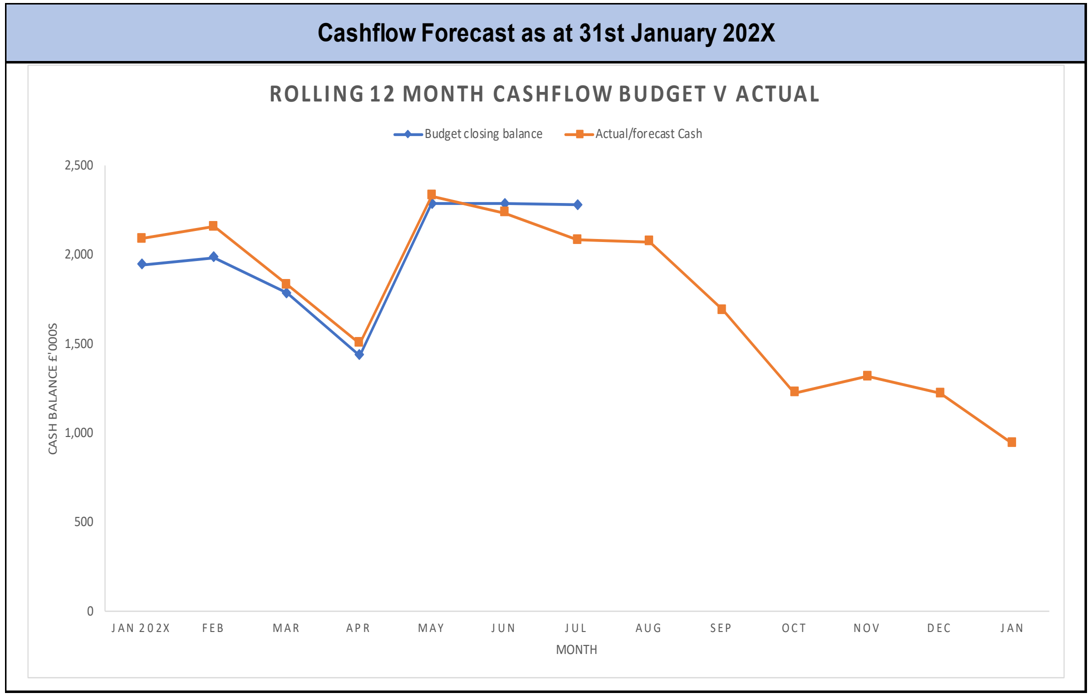
Weatherbury College
Management Accounts for the period to 31 January 202X

Headlines	Current Status	Impact	RAG	Change
Operating surplus (deficit) to date	Operating deficit to Jan 202X of £575,000	£150,000 adverse		
Income vs budget to date	Income to January 202X £10.147 million	£202,000 (2%) adverse		
Pay costs vs budget to date	Pay costs tracking £84,000 (1%) below budget			
Non-pay costs vs budget to date	Non pay costs £28,000 (1%) over budget			
Forecast out-turn surplus (deficit)	Forecast deficit for year of £262,000	£242,000 adverse		
Forecast out-turn EBITDA	Forecast EBITDA £655,000 (3.2% of turnover)	£250,000 adverse		
Capital Programme	All planned capital expenditure on track			
Asset Disposals	No major asset disposals planned			
Cash vs forecast	Projected year-end cash 38 cash days in hand	£200,000 adverse		
Cash generation from operations	Forecast £700,000 increase	£207,000 adverse		
Covenant compliance	Prospect of loan covenant breach	Work ongoing		
Financial health	Revised forecast 120 points (RI)	Risk of inadequate FH		

Key Performance Indicators

Indicator	Actuals	Forecast (full year)	Budget / Target (full year)	Variance	RAG	Move ment
Turnover	£10.15m	£20.67m	£21.03m	(£0.36m)	▲	↓
Operating Surplus/Deficit	(£0.58m)	(£0.26m)	(£0.02m)	(£0.24m)	▲	↓
Operating Surplus/Deficit as % of Turnover	(5.7%)	(1.3%)	(0.1%)	(1.2%)	▲	=
Education EBITDA	(£0.04m)	£0.66m	£0.91m	(£0.25m)	▲	↓
Education EBITDA as % of Turnover	(0.4%)	3.2%	4.3%	(1.1%)	▲	=
Cash Reserves	£2.09m	£2.08m	£2.28m	(£0.2m)	▲	=
Cash Days in Hand	38	38	41	-3 days	!	↓
Loan balance	£8.12m	£7.92m	£7.92m	nil	✓	=
Debt service cover		0.97	1.26	(0.29)	▲	↓
Staff Numbers (fte's)	329.2		335.8		✓	=
Pay as % of Turnover	69.7%	68.2%	68.1%	(0.1%)	✓	=
Debtor Days	15	13	14	1	✓	=
Creditor Days	31	26	26	-	✓	=

Cash



Notes and assumptions

- Actual cash at bank at 31 January is £2.09 million, equivalent to 38 cash days in hand. This is marginally lower than forecast due to the adverse operating performance to date.
- Cash balances are forecast to fall to a low-point of £1.5 million at the end of April 202X, equivalent to 27 cash days in hand (marginally above the FEC benchmark of 25 cash days)
- Creditor payments are not falling behind.
- However, forecast EBITDA for the year of £655,000 is substantially less than the combined costs of debt servicing (£720,000) and the capital programme (£691,000). This underlines the need to improve EBITDA going forward to avoid the continuing decline in cash reserves.
- Debt recovery actions are working well, with debtor days currently at 15 compared to the target of 14 for the year as a whole.

Loan Covenant Compliance

Covenant measure	Forecast (full year)	Budget (full year)	Covenant Met?	Head room
Debt service cover > 1.25	0.97	1.26	**NO**	
Net borrowings: EBITDA < 7.0	8.91	6.23	**NO**	
Net Assets (excluding pension liability) >0	£3.17m	£3.41m	**YES**	£3.17m

In order to avoid a covenant breach, EBITDA performance would need to improve by £199,000.

Given the prospect of a covenant breach, dialogue is ongoing with the bank to secure a waiver or agreement not to measure the covenants at year-end.

In the event that 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 autoscore to inadequate (headroom above inadequate is already as low as £37,000).

The DfE has been informed of this risk.

Financial Health

Indicator	Budget (full-year)	Points	Forecast Out-turn	Points	Movement
Solvency (adjusted current ratio)	0.89	40	0.83	40	=
Performance (EBITDA as % of adjusted income)	4.3%	40	3.2%	30	
Borrowing (Loans as % of adjusted income)	37.7%	50	38.3%	50	=
Automated Financial Health Grade	**RI**	130	**RI**	120	
Self-Assessed Financial Health Grade	**RI**		**RI**		

Student Numbers

Headcount	Full year actuals (last year)	Actuals (current year)	Full-year budget	Full-year forecast	RAG	Financial Implications
16-19 students	2,820	2,780	2,710	2,790	✓	Increase in lagged funding in 202X/2Y of circa £350,000
ASF (including devolved)	1,120	743	1,230	1,150	▲	Forecast shortfall of £139,000 in 202W/2X which is outside tolerances
16-18 Apprenticeships	210	115	136	128	▲	Forecast shortfall in income of £36,000. Substantial decline from previous year
19+ Apprenticeships	220	123	145	135	▲	Forecast shortfall in income of £20,000
HE: full-time	162	128	135	125	▲	Forecast shortfall in income of £85,000 Substantial decline from previous year
HE: part-time	165	160	160	155	!	Marginally behind budget (£7,000 shortfall forecast)
Advanced Learner Loans	185	155	180	180	✓	Broadly on budget

Income and Expenditure Commentary

Income

- Adult Skills Fund (ASF and devolved) performance tracking 6% behind budget to date, forecast shortfall at year-end £139,000 (therefore outside tolerance)
- Apprenticeships income tracking £29,000 (6%) behind budget to date, forecast shortfall £56,000 (6%) at year-end
- HE loan income tracking £45,000 (5%) behind budget to date, forecast to increase to £92,000 shortfall (5%) by year-end
- Overall income performance for the period to 31 January is £202,000 (2%) below budget. Full-year forecast income at £20.670m is £356,000 (2%) below budget.
- Compared with 202V/2W, forecast income is down 5% from £21.8m to £20.67m

Pay

- Teaching pay costs to date are £47,000 (1%) below budget to date, partly offset by an additional £33,000 on sessional staff. Forecast outturn is a net underspend of £69,000 (1%) on teaching and sessional staffing
- Non-teaching pay costs are tracking £62,000 (2%) below budget to date, which is forecast to continue to year-end (underspend of £128,000 or 2%)
- Overall pay costs to date are £84,000 (1%) below budget to date, forecast to increase to an underspend of £216,000 (2%) by year end.
- Despite this pay costs as % of turnover are forecast to out-turn slightly above budget at 68.2% due to lower forecast turnover. At 68.2% pay costs remain 3.2% above the FEC benchmark of 65%.

Non-pay

- Overall non-pay expenditure to 31 January is tracking £28,000 over budget to date, with the main pressure points being other operating expenditure(£54,000 which includes £31,000 on student laptops); rent and lease costs(£33,000); estates(£30,000);
- The forecast out-turn non-pay costs at £6.119m are £110,000 (2%) over budget despite a forecast underspend of £33,000 on education supplies and services

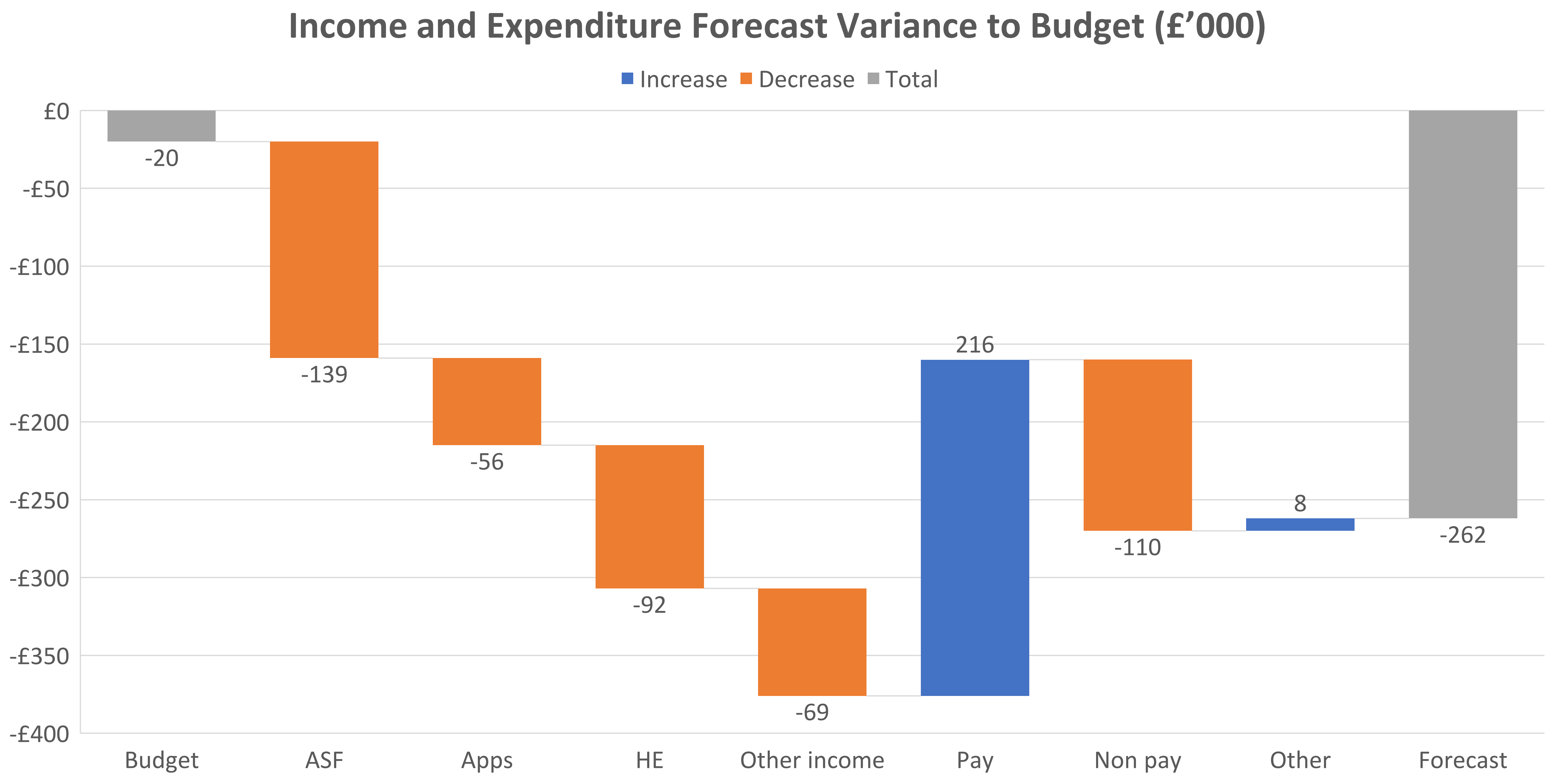
Sub-contracted Delivery

- Sub-contracted delivery is budgeted at £300,000 for the year as a whole, representing under 2% of total delivery
- Delivery to date is marginally behind profile but forecast to hit the contracted volume by year-end.
- Direct costs of subcontracted delivery at £240,000 for the year equate to 80% of the value of the provision

Overall Income and Expenditure Performance

- Actual performance to date is behind budget giving rise to an operating deficit to date of -£575,000 and EBITDA of -£37,000
- The forecast out-turn deficit of £262,000 is £242,000 higher than the budgeted deficit of £20,000 giving rise to EBITDA of £655,000 (3.2%). This is substantially worse than the previous year out-turn surplus of £827,000 (EBITDA of £1.893m or 8.7%)

Income and Expenditure Bridge



Sensitivity testing

The table opposite indicates three scenarios for the forecast out-turn reflecting three key variables *(see numbers highlighted in boxes)*:

- ASF income (full achievement of allocations under best case and shortfall of 10% worst case)
- FE / Full cost fees potential additional shortfall of £50,000 (worst case)
- Achievement in-year of £82,000 savings in pay costs and £160,000 non-pay costs (best case)

The **best case** scenario would result in an operating surplus of £119,000 i.e. marginally better than budget.
The **base case** scenario (most likely outcome) results in a operating deficit of £262,000 which will trigger a covenant breach, which needs to be discussed with the DfE. If a waiver can be secured financial health will remain requires improvement.
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.

Forecast Out-turn (£'000)	Base case	Best case	Worst case
16-19 Grant Income	13,022	13,022	13,022
Adult Skills Fund	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
Adv Learner 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)**

Capital expenditure

Capital Budget	Year to date actual £'000	Committed £'000	Total (actual + committed) £'000	Full year budget £'000	Forecast Full Year £'000	Forecast under/(over spend) £'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**

Notes: All capital projects are proceeding to plan. Overall capex for the year is forecast to be £10,000 below the full-year budget.

Summary of Key Financial Risks

Ref	Risk	RAG rating
1	Failure to achieve budget targets for 202W/2X leads to a breach of loan covenants that could trigger a decline in financial health to inadequate	**RED**
2	Failure to improve the underlying financial sustainability, including forward cashflows, of the college leading to a possible case for structural change	**RED**
3	Failure to secure agreement with the bank regarding waiver of the forecast covenant breach and/or to revised covenant terms, leading to requirement to report to DfE	**RED**
4	Cash below 25 days at April low point	**AMBER**

Issues for further review

Ref	Issue	Timescale
1	Monitoring of forecast loan covenant breach and progress with securing waiver before year-end. Inform DfE of potential breach.	July 202X
2	Monitoring of potential for decline in forecast financial health grade for 202W/2X to inadequate (linked to covenant breach). Inform DfE of potential decline.	July 202X
3	Confirmation of cost reduction actions aimed at achieving target in-year savings of circa £242,000	April 202X (actions agreed) July 202X (actions implemented)
4	Confirmation of strategies to achieve ASF budget targets for 202W/2X i.e. closing projected shortfall of £139,000	April 202X (actions confirmed) July 202X (actions implemented)