Department for Education

Weatherbury College

Model management accounts

FOR THE PERIOD TO 31st JANUARY 202X

Contents

Summary Income and Expenditure Account

Income & Expenditure	YTD Actual £'000s	YTD Budget £'000s	YTD Variance £'000s	Full Year Forecast £'000s	Full Year Budget £'000s	Full Year Variance £'000s	Prior Year YTD £'000s	Prior Year Full Year £'000s
Income	10,147	10,349	(202)	20,670	21,026	(356)	10,709	21,803
Pay Expenditure	7,016	7,100	84	13,896	14,112	216	6,794	13,451
Non-Pay Expenditure	3,168	3,140	(28)	6,119	6,009	(110)	3,288	6,459
EBITDA (Earnings before Interest, Tax & Depreciation)	**(37)**	**109**	**(146)**	**655**	**905**	**(250)**	**627**	**1,893**
Release of Capital Grants	51	51	-	102	102	-	51	102
Depreciation	360	360	-	715	720	5	365	729
Net interest	229	225	(4)	304	307	(3)	221	439
Surplus/(Deficit) after ITDA	**(575)**	**(425)**	**(150)**	**(262)**	**(20)**	**(242)**	**92**	**827**
FRS102 Pension adjustments	-	-	-	(789)	(789)	-	-	(650)
Surplus/(Deficit) after Exceptional Items	**(575)**	**(425)**	**(150)**	**(1,051)**	**(809)**	**(242)**	**92**	**177**

Summary KPIs

KPI	Current Year Forecast	Current Year Budget	Prior Year Full Year
EBITDA as % of Income	**3.2%**	**4.3%**	**8.7%**
Staff Cost %	**68%**	**67%**	**62%**
Closing Month-End Cash Balance (£k)	**2,082**	**2,281**	**2,780**
Cash Days in Hand (No of Days)	**38 Days**	**41 Days**	**52 Days**
Financial Health Rating	**RI**	**RI**	**Good**
Loan Covenants	**2 covenants breached**	**At risk**	**Compliant**

1. Executive Summary

Indicator	Current Status	RAG	Change
Income & Expenditure Account			
Operating surplus/ deficit	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 ASF 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 the budget by the end of the year. Small overspends forecast on several lines.		
EBITDA	EBITDA is a £37k deficit at 31 January 202X. 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.		
Covenant compliance	Current full year forecast indicates that the college will breach two of the three covenants. The DfE has been informed of the risk. Discussions are on-going with the bank and external auditors.		
Financial Health			

Financial Health	Full year forecast is for 120 points and results in a 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 a deficit of £575,000, which is £150,000 worse than the 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 the 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 are forecast to be c.68% 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 has informed the DfE of the risk and is also actively engaged with the bank to secure a waiver, pending further dialogue to review the current covenants. If agreement cannot be reached with the bank to maintain existing terms, including the interest rate, the reclassification of colleges into the public sector means that the DfE will need to be informed. No new interest rate agreement can be entered into without their consent.

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 regarding the loan covenant would mean that the debt is reclassified as a current liability and almost certainly result in a decline in the financial health grade to inadequate.

Since reclassification, the college’s key income monthly streams are now received in a ‘flatter’ annual profile, which has led to a more stable cash position, although some monthly fluctuation remains. Cash reserves are relatively healthy at £2.09 million at the end of January 202X and remain adequate to the year end. However, the weak operating performance remains a serious concern, and, despite the flatter profile, cash reserves will steadily erode over time unless the college can improve its underlying operating performance.

As noted, the forecast operating deficit is £262,000. Targeted actions are being implemented aimed at reducing costs in-year by £242,000 and closing the projected £139,000 shortfall in the Adult Skills Fund (ASF) 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 £472,000 Please refer to section 9 to see these best case and worst case operating scenarios modelled in full.

2. Financial Health

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			
Headroom on performance ratio is only £37k creating a high risk that the financial health autoscore could slip to inadequate.						

The full year forecast predicts a financial health score of 120 points, which is at the low end 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 £37,000 could trigger this.

3. Income & Expenditure

INCOME & EXPENDITURE ACCOUNT FOR THE 6 MONTHS TO 31st JANUARY 202X	Cumulative YTD			Full Year			Prior Year	
	Actual	Budget	Variance	Forecast	Budget	Variance	YTD	Full Year
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
INCOME								
14-16 income	5	20	(15)	13	39	(26)	31	66
16-19 income (incl. Element 2)	6,511	6,511	-	13,022	13,022	-	6,389	12,778
Local Authority High Needs - Element 3	221	221	-	442	442	-	195	390
Apprenticeships	428	457	(29)	855	911	(56)	702	1,448
Adult Skills Fund (ASF)	1,220	1,270	(50)	2,713	2,812	(99)	1,348	2,995
Devolved ASF	50	75	(25)	135	175	(40)	-	-
Advanced Learner Loans	171	173	(2)	344	347	(3)	175	355
OFS	112	112	-	225	225	-	125	250
HE Loans	952	997	(45)	1,901	1,993	(92)	1,107	2,215
Other Funding body grants	99	99	-	198	198	-	82	163
European Income	-	-	-	-	-	-	-	-
Full Cost Fees	88	108	(20)	244	270	(26)	138	320
HE Fees (not loans)	-	-	-	-	-	-	-	-
Apprenticeship Fees	49	60	(11)	101	120	(19)	89	184
Other Tuition Fee Income	69	78	(9)	160	173	(13)	85	179
Catering	72	70	2	145	140	5	86	173
Nursery	70	67	3	130	115	15	79	142
Residences and conferences	-	-	-	-	-	-	-	-
Farming	-	-	-	-	-	-	-	-
Other commercial income	30	31	(1)	42	44	(2)	21	32
Other Income	-	-	-	-	-	-	57	113
TOTAL OPERATING INCOME	**10,147**	**10,349**	**(202)**	**20,670**	**21,026**	**(356)**	**10,709**	**21,803**
of which is from sub-contracting	**84**			**300**	**300**		**99**	**305**
PAY								
Teaching staff	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
Contracted tuition services	42	50	8	99	118	19	55	132
Teaching and other support staff	1,220	1,140	(80)	2,440	2,280	(161)	1,248	2,269
Administration staff	1,651	1,795	144	3,303	3,589	287	1,688	3,573
Operational & maintenance staff	59	60	1	76	81	5	41	56
Catering Staff	48	46	(2)	92	92	-	45	90
Nursery Staff	45	44	(1)	91	88	(3)	43	86
Apprenticeship 2% Levy	-	-	-	-	-	-	-	-
TOTAL PAY	**7,016**	**7,100**	**84**	**13,896**	**14,112**	**216**	**6,794**	**13,451**
NON PAY								
Teaching costs	477	492	15	765	798	33	510	851
Teaching and other support costs	194	190	(4)	361	347	(14)	181	359
Administration costs	223	243	20	496	487	(9)	280	625
Operational & maintenance costs	817	795	(22)	1,606	1,576	(30)	832	1,691
Examination costs	242	220	(22)	355	340	(15)	257	424
Rent and lease costs	901	886	(15)	1,788	1,755	(33)	862	1,745
Catering costs	39	35	(4)	74	65	(9)	47	89
Nursery costs	15	14	(1)	29	27	(2)	74	240
Subcontracting costs	65	80	15	240	240	-	23	45
Other operating expenditure	195	185	(10)	405	374	(31)	222	390
TOTAL NON PAY	**3,168**	**3,140**	**(28)**	**6,119**	**6,009**	**(110)**	**3,288**	**6,459**
Education-specific EBITDA	**(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%
Release of DCGs	(51)	(51)	-	(102)	(102)	-	(51)	(102)
Depreciation and amortisation	360	360	-	715	720	5	365	729
Interest and investment income	(7)	(9)	(2)	(12)	(15)	(3)	(12)	(22)
Interest and other finance costs	236	234	(2)	316	322	6	233	461
Other gains and losses	-	-	-	-	-	-	-	-
Operating Surplus/(deficit) after ITDA	**(575)**	**(425)**	**(150)**	**(262)**	**(20)**	**(242)**	**92**	**827**
Surplus/(deficit) after ITDA	(575)	(425)	(150)	(262)	(20)	(242)	92	827
FRS102 adj. - current service costs (non-cash)	-	-	-	789	789	-	-	650
TCI	**(575)**	**(425)**	**(150)**	**(1,051)**	**(809)**	**(242)**	**92**	**177**

Currently, total income is £202,000 lower than the year-to-date budget 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 c.£150,000 worse than budget.

Forecast position

I & E Key full year forecast variances to budget as at 31st January 202X			
	£'000	£'000	
Original budgeted / forecast operating deficit excl FRS 102	**(20)**	**(262)**	**Variance from budget is £242k adverse**
Key Variances	**Better/Worse v Budget**	**£'000**	**Notes**
Income Variances			
Adult Skills Fund	Worse	(139)	See the table below for delivery against the separate contracts.
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 (£17k) lower new starts
Total Income Variances	**Worse**	**(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	Better	24	Lower need than anticipated
Other staff	Worse	(3)	Nursery staff
Teaching costs	Better	33	4% underspend - saving across curriculum areas to offset IT overspend
Operational & maintenance costs	Worse	(30)	Increased in utility charges, and some urgent maintenance work on main site 2% overspend
Examination costs	Worse	(15)	Change of exam entry mix
Rent and lease costs	Worse	(33)	New lease for evening provision
Commercial costs	Worse	(11)	Catering supplies cost increases
Other operating expenditure	Worse	(54)	IT costs 31k over due to additional student laptops
Total Expenditure Variances	**Better**	**106**	**Overall 0.5% better than budget**
Other	Better	8	Depreciation and interest
Total of all variances	**Worse**	**(242)**	**Budgeted deficit £20k, Forecast deficit is £262k**

Income

Total income for the year is forecast to be £356,000 lower than budget, a shortfall of approximately 1.7% of total budgeted income. The two main issues on income so far are in ASF and HE fee income.

A summary of the position with ASF funding is as follows (note the different reconciliation tolerances applicable to each of our contracts):

	YTD			Underdelivery year to date	Forecast out-turn			Tolerance for underdelivery	Forecast underdelivery	Forecast recovery (clawback)
	Actual £000	Budget £000	Var £000		Actual £000	Budget £000	Var £000			£000
ASF grant-funded	490	505	-15	**3%**	1,435	1,487	-52	3%	**3.5%**	-52
ASF devolved	780	840	-60	**7%**	1,413	1,500	-87	5%	**5.8%**	-87
Total	1,270	1,345	-75	**6%**	2,848	2,987	-139	4%	**4.7%**	-139

Despite increased marketing of the ASF offer, the competitive nature of the local market has created difficulties in recruiting learners to some of our courses, resulting in a forecast claw back of £139k.

With a slight increase in forecast recruitment in the remainder of the year, it should be possible to deliver above the reconciliation tolerances on both contracts, meaning that there is then no liability to return any funding, and this will be kept under close review in future months. Until this improvement is secured, however, the full £139k current forecast of claw back has been included in the forward cash flow forecast.

The HE fees income is currently £45,000 below the 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.

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 ASF 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 some cost savings have arisen due to vacancies.

Total pay costs as a percentage of turnover are forecast to be c68%. This is 3% over the FEC financial benchmark. 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 the budget. This is due to several different areas including:

- Central admin - forecast £30k overspend on photocopying and stationery;
- Marketing – forecast £15k overspend on an additional radio campaign to try and make up ASF 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 offset fully by a saving on education supplies and services. We have requested all budget holders try to 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 £37,000 for the year-to-date and is forecast to be a £655,000 (3.2% of total income) surplus by the end of the year. This is against a full year budget target of £905,000 (4.3% of income), a shortfall of £250,000, and over £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	2,780	2,710	2,790	2,820	Green	Increase in lagged funding in 202X/2Y of c£350k
ASF	743	1,230	1,150	1,120	Red	See the table above showing delivery against the individual contracts. There could be a recovery of funds up to c£139k.
16-18 Apprenticeships	115	136	128	210	Red	New starts currently behind profile, funding shortfall projected as £36k for the year
19+ Apprenticeships	123	145	135	220	Red	Budget shortfall will be a maximum of £20k
HE: full-time	128	135	125	162	Red	Shortfall in learners likely to result in fee income being c£85k lower than budget
HE: part-time	160	160	155	165	Amber	Marginally under budget by £7k
Advanced Learner Loans	155	180	180	185	Green	Expect funding to be very close to budget

4. Balance Sheet

BALANCE SHEET AS AT 31st JANUARY 202X						
	Opening Balance 1 Aug £000s	Actual as at January 202X £000s	Movement ytd £000s	Budget 31 July 202X £000s	Forecast 31 July 202X £000s	Variance Budget v Forecast 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 Receivables	836	655	(181)	800	750	(50)
Other Receivables & Prepayments	264	302	38	228	240	12
Restricted cash	-	-	-	-	-	-
Cash and cash equivalents	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						
Commercial Loans	396	396	-	396	396	-
Capital Grant Liability	102	102	-	102	102	-
Trade Payables	520	576	56	436	436	-
Other Payments on Account	729	756	27	729	729	-
Deferred Income	340	354	14	375	375	-
Accruals	1,565	1,401	(164)	1,565	1,565	-
Holiday and Sabbatical Pay Accrual	278	278	-	255	255	-
Other Taxation and Social Security	241	257	16	241	241	-
Total Creditors due within one year	**4,171**	**4,120**	**(51)**	**4,099**	**4,099**	**-**
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						
Commercial loans	7,920	7,722	(198)	7,524	7,524	-
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**	**-**
Total borrowing as % of income	38.1%			37.7%	38.3%	
Provisions						
Local Government Pension Scheme Provision	3,603	3,603	-	4,392	4,392	-
Total Provisions	**3,603**	**3,603**	**-**	**4,392**	**4,392**	**-**
Total Net Assets	**4,221**	**3,646**	**(575)**	**3,412**	**3,170**	**(242)**
Reserves						
Pension Reserve	(3,603)	(3,603)	-	(4,392)	(4,392)	-
Revaluation Reserve	812	812	-	812	812	-
Income and Expenditure Reserve	7,012	6,437	(575)	6,992	6,750	(242)
Total Reserves	**4,221**	**3,646**	**(575)**	**3,412**	**3,170**	**(242)**

The balance sheet as of 31 January 202X has net current liabilities of £1.04m, giving an adjusted current ratio of 0.82. This is a significant movement from the opening balance sheet position, which had net current liabilities of £256,000. The main reason is a reduction in the current assets balance due to less cash, and lower debtors.

By the end of the year, we expect net current liabilities to be £992,000 against a budget of £755,000, which is £237,000 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. The 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 adjusted current ratio was just over 1.

Debtors and Creditors Analysis

Debtors	Jul 202W	Jan 202X	Change	% of total Jan 202X
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)**	

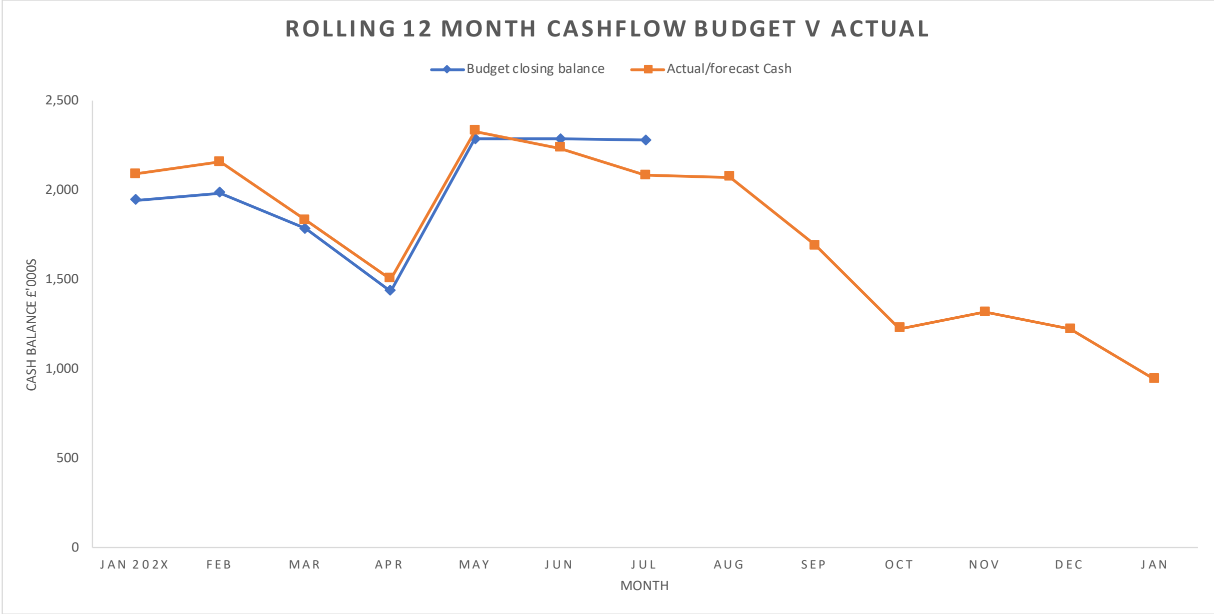
Debtors over 3 months are fully provided for. All debtors below 90 days are currently expected to be fully recoverable.

Creditors	Jul 202W	Jan 202X	Change	% of total Jan 202X
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

Cashflow Forecast as at 31st January 202X



The deterioration in solvency above is a direct impact of reducing cash balances. The current cash balance is c£2.09m, 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 just under £2.1m. This will mean that overall cash balances will have reduced by c£700,000 for the full year. The low point in the cash forecast is expected to be at the end of April, with a projected balance of around £1.5m, representing 27 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 £900,000 of cash from operations during the year, with the majority of this cash (£720,000) being required to meet the loan repayments. The capital budget agreed for the year was £700,000 meaning that we would need to dip into cash reserves by around £500,000 this year.

The underperformance 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£700,000 of our cash reserves this year to fund the capital. This underlines the need to improve EBITDA performance going forward to avoid a continuing decline in cash reserves.

Use of Cash Summary 202W/2X		
	Budget	**Forecast**
Cash generation from Operations	907	700
Cash received from interest	15	12
Total Cash available	**922**	**712**
Cash used to service debt	(720)	(720)
Cash spent on routine capital	(701)	(691)
Cash Movement excl. major capital projects & new loans	**(499)**	**(699)**
Net cash contribution to major capital project	-	-
Total Cash Movement	(499)	(699)
Cash at Start of Year	2,780	2,780
Cash at End of Year	2,281	2,081
Budgeted Cash Movement for Year	**(499)**	**(699)**
% cash used to service debt	**78%**	**101%**
% cash used for routine capex	**76%**	**97%**
Total % use of cash	**154%**	**198%**
We will use approximately double the amount of cash we generate from operations this year to meet our debt servicing commitments and to meet the capital expenditure investment programme. This is not sustainable in future years.		

The cashflow reflects the forecast position in the income and expenditure schedule, including a potential total repayment of ASF funding of £139,000; this is shown in December 202X.

All amounts £'000s	Actual Jan 202X	Forecast Feb	Forecast Mar	Forecast Apr	Forecast May	Forecast Jun	Forecast Jul	Forecast Aug	Forecast Sep	Forecast Oct	Forecast Nov	Forecast Dec	Forecast Jan
WEATHERBURY COLLEGE - 12 month rolling cashflow forecast													
Operating Receipts													
16-19 Allocation	1,085	1,085	1,085	1,085	1,085	1,085	1,084	1,117	1,117	1,117	1,117	1,117	1,117
Adult Skills Fund (ASF)	249	249	249	249	249	249	249	249	249	249	249	249	249
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	50	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	25	24	24	24	25	24	25	-	25	25	25	25	25
Total Operating Receipts	**1,583**	**2,017**	**1,534**	**1,621**	**2,535**	**1,572**	**1,518**	**1,478**	**1,678**	**1,701**	**2,092**	**1,632**	**1,617**
Payroll													
Salaries	691	688	692	688	695	701	666	665	681	709	722	696	712
Pension (TPS & LGPS)	175	170	171	170	173	176	165	166	170	177	180	175	180
HMRC	288	287	288	287	290	295	278	272	284	296	304	291	297
Total Payroll	**1,154**	**1,145**	**1,151**	**1,145**	**1,158**	**1,172**	**1,109**	**1,103**	**1,135**	**1,181**	**1,206**	**1,163**	**1,189**
Operating payments													
Supplier payments	544	675	561	535	456	427	356	178	800	720	700	400	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	-
Total operating payments	**566**	**729**	**586**	**560**	**514**	**455**	**386**	**210**	**824**	**744**	**757**	**563**	**624**
Cash movement on operating activities	**(137)**	**143**	**(203)**	**(84)**	**863**	**(55)**	**23**	**165**	**(281)**	**(224)**	**128**	**(94)**	**(196)**
Annual Capex													
Payments	25	76	120	70	35	40	-	175	100	60	40	-	-
Net expenditure on Capex	**(25)**	**(76)**	**(120)**	**(70)**	**(35)**	**(40)**	**-**	**(175)**	**(100)**	**(60)**	**(40)**	**-**	**-**
Financing													
Interest received	3	-	-	3	-	-	2	-	-	2	-	-	2
Bank Loan repayments	180	-	-	180	-	-	180	-	-	180	-	-	180
Total Financing	**(177)**	**-**	**-**	**(177)**	**-**	**-**	**(178)**	**-**	**-**	**(178)**	**-**	**-**	**(178)**
Net cash movement for period	**(339)**	**67**	**(323)**	**(331)**	**828**	**(95)**	**(155)**	**(10)**	**(381)**	**(462)**	**88**	**(94)**	**(374)**
Opening Balance	2,429	**2,090**	**2,157**	**1,835**	**1,503**	**2,331**	**2,236**	**2,081**	**2,070**	**1,689**	**1,227**	**1,315**	**1,315**
Closing Balance	**2,090**	**2,157**	**1,835**	**1,503**	**2,331**	**2,236**	**2,081**	**2,070**	**1,689**	**1,227**	**1,315**	**1,221**	**941**
Cash Days - Closing balance	38	39	33	27	43	41	38	38	31	22	24	22	17
Budget closing balance	1,945	1,985	1,785	1,435	2,285	2,285	2,281	2,070	1,689	1,227	1,315	1,221	941
Actual closing balance	**2,090**	**2,157**	**1,835**	**1,503**	**2,331**	**2,236**	**2,081**						

6. Loans

Bank Covenants						
Covenant Measure	**Budget 202W/2X**	**Forecast 202W/2X**	**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	3,412	3,170	YES	3,170		

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 in the ratio. Given the adverse performance, it is now very unlikely that we will 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. The DfE has been informed of this risk, since due to sector reclassification, the college will need to seek permission from the DfE for refinancing if the bank is unwilling to retain existing terms following the breach of covenant.

7. KPIs

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%	(0.1%)		
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	-		
Staff Numbers (fte's)	317		326	9		
Staff Utilisation	94.3%	95.0%	95.0%	(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 Further Education Commissioner (FEC), financial benchmarks with the exception of cash days. Whilst these are issued as target financial indicators and are 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 202X/2Y to help improve underlying efficiency.

An analysis of forecast contribution for the current year by curriculum area is available in the appendices.

8. Capital

Capital Budget	Year to date actual	Committed	Total (actual + committed)	Full year budget	Forecast Full Year	Forecast under/ (over)
	£'000	£'000	£'000	£'000	£'000	£'000
Server Upgrades	34	15	49	60	60	-
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 202X

Forecast Outturn (£'000)	Base case	Best case	Worst case	Comments
16-19 Income	13,022	13,022	13,022	The table opposite indicates three scenarios for the forecast out-turn reflecting three key variables:
Adult Skills Fund (ASF)	2,848	2,987	2,688	
Other Grants / LA Income	653	653	653	1. ASF income (full achievement of allocations under best case and shortfall of 10% in worst case)
Apprenticeships	855	855	855	
Higher Education Grants / Fees	2,126	2,126	2,126	2. FE / Full cost fees potential additional shortfall of £50,000 (worst case)
FE Loans, FE and Full Cost Fees	849	849	799	3. Achievement in-year of £82,000 savings in pay costs and £160,000 non-pay costs (best case)
Other Income	317	317	317	
Total Income	**20,670**	**20,809**	**20,460**	
Pay Costs (excl. staff restructuring)	13,896	13,814	13,896	The best case scenario would result in an operating surplus of £119,000 i.e. marginally better than budget.
Staff Restructuring Costs	-	-	-	
Other Non-Pay Costs	6,119	5,959	6,119	
Total Operating Expenditure	**20,015**	**19,773**	**20,015**	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.
Education EBITDA	**655**	**1,036**	**445**	
Release of Capital Grants	102	102	102	
Investment Income	12	12	12	
Depreciation	(715)	(715)	(715)	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.
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 above respective reconciliation thresholds for both grant-funded and devolved elements of ASF. 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**	**Ref**	**Issue for Review**	**Timescale**
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.		1	Monitoring of forecast loan covenant breach and progress with securing waiver before year-end. Inform the DfE of potential breach.	Jul 202X
2	Failure to improve the underlying financial sustainability, including forward cashflows, of the college leading to a possible case for structural change.		2	Monitoring of potential for decline in forecast financial health grade for 202W/2X to inadequate (linked to covenant breach). Inform the DfE of potential breach/financial health grade.	Jul 202X
3	Failure to secure agreement with the bank regarding waiver of the forecast covenant breach and/or to revised covenant terms.		3	Confirmation of cost reduction actions aimed at achieving target in-year savings of c£242,000. Inform the DfE of potential breach.	April 202X (actions agreed) July 202X (actions implemented)
4	Cash below 25 days in April.		4	Confirmation of strategies to achieve ASF budget targets for 202W/2X i.e. closing projected shortfall of £139,000.	April 202X (actions agreed) July 202X (actions implemented)

Footnote on appendices.

There are four further schedules that can be included to cover:

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

These are currently shown on a separate excel file.

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