

## THREE YEAR FINANCIAL FORECAST FOR THE PERIOD 2008/09 – 2010/11

The purpose of this report is to set out a financial forecast for the college for the next three years. This forecast is required by the Learning and Skills Council (LSC) and has to be sent to them by 31 July having been approved by the Finance and General Purposes Committee and the Corporation. The forecast embodies the key business elements of the strategic plan and the figures for 2008-09 are the budget for the year as considered earlier in this meeting. It will be appreciated that the schedules are lengthy and complex. However it is the process of preparing the plans that is important and the overall picture that they paint rather than the detailed numbers.

### MANAGEMENT SUMMARY

The Financial Forecast is based on:

- Delivery of the Strategic Plan which includes growth in student numbers as detailed in the Education Case in support of our capital project application.
- Prudent assumptions, particularly in relation to pay and non-pay expenditure.
- Inclusion of the proposed capital project.

As part of Framework for Excellence, the LSC has developed a new approach to assessing the financial health of colleges and other providers and this is incorporated in the 2008 college financial returns, as well as the old style scoring of A, B and C.

The grade definitions under the new methodology are summarised below:

<b>Grade</b>	<b>Definition</b>	<b>Indicators</b>
1 Outstanding	A provider that has very robust finances to fulfil its contractual obligations and to respond successfully to opportunities or adverse circumstances.	Normally, a provider with excellent/good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).
2 Good	A provider that has sufficiently robust finances to fulfil its contractual obligations, and to respond successfully to most opportunities or adverse circumstances.	Normally, a provider with at least two good indicators for solvency (current ratio), margin (operating surplus/profit), and status (gearing).
3 Satisfactory	A provider that appears to have sufficient resources to fulfil its contractual obligations, but also appears likely to have limited capacity to respond successfully to opportunities or adverse circumstances.	Normally, a provider with at least two satisfactory indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).

4 Inadequate	A provider that is in financial difficulty and very likely to be dependent on the goodwill of others. There is a significant risk of providers in this group not being able to fulfil contractual obligations because of weak financial health.	Normally, a provider with at least two inadequate indicators for solvency (current ratio), margin (operating surplus/profit), or status (gearing).
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The forecast indicates that the college is a category C college for the current year, going into category B for the next three years. Under the Framework for Excellence model, the college is assessed as being satisfactory for all years of the plan. This seems reasonable considering the impact of the proposed capital project.

### FORECASTING

Financial forecasting continues to be difficult due to a number of factors:

- There is uncertainty over the level of funding for our capital project until the Application in Detail is approved by the LSC in February 2009.
- Uncertainty over the future levels of funding in respect of growth, as well the implication of the likely demise of the LSC in 2010.

### ASSUMPTIONS

The format of the financial forecast has been updated, and the assumptions are now included within the forecast itself. They can be found in Schedule 6. However, the key assumption remains that, with the exception of the capital project, there is no major change in the nature or operation of the College and it is assumed that full-time 16-19 students will continue to be the College's core "market".

### LINK TO THE ANNUAL BUDGET

The first year of the Financial Forecast is based upon the detailed budget considered by this committee earlier in the meeting.

### FINANCIAL OBJECTIVES

The College's financial objectives are set out in Appendix 1.

### RISK ANALYSIS AND RISK MANAGEMENT

As a sixth form college delivering high-quality provision and operating on a single site with no franchising or distance learning, the College is generally a low risk organisation. Similarly the College does not exhibit a number of the risk factors listed by the LSC student records Self-assessment checklist.

The Sensitivity Analysis and Contingency Plan schedule can be found as Schedule 5 within

## CONCLUSION

The forecast represents a sound base for planning and the key risks have been identified and consideration given on how these can be managed.

The Committee is asked to consider and approve these forecasts to the Corporation as a basis for planning.

Jutta Knapp  
Assistant Principal (Director of Finance and Estates)



## APPENDIX 1

### Detail on Financial Objectives

The following financial objectives have been previously agreed:

<b>Measure</b>	<b>Target</b>	<b>Range during planning period</b>	<b>Notes</b>
1. Cash days in hand	Minimum of 25 days including short term investments	78 days –(7) days	This reflects the timing of payments and receipts resulting from the capital project. Continued tight cash management should see the position improve
2. Historic cost surplus	Range £25k-£50k per annum	£398k deficit to £133k surplus	Deficit outturn already discussed, surplus budgets being set for the rest of the planning period
3. General reserves over income.	Minimum of 10%.	18.3% - 21.82%	
4. Current assets to current liabilities (“current ratio”)	Minimum of 1.0	0.24 -3 .67	This reflects the need to use cash to fund delay in receiving LSC capital support for the project
5. Planned maintenance	To adhere to the agreed Planned Maintenance Programme.		The college has developed a maintenance plan as part of its overall accommodation strategy. This has now been incorporated into the refurbishment requirements of the capital project.
6. Pay as % of income	Stabilise ratio in range 70% to 80%	75.04% - 76.36%	Pay cost ratio is improving, but anticipated pay increases are in excess of anticipated increases in levels of funding
7. Non LSC income as % of income	Achieve proportion of 10%	5.63% - 7.5%	A more proactive approach to maximising non LSC income is to be taken

It is intended to report performance on these financial targets through the financial reports received by the Corporation.