

**THREE YEAR FINANCIAL FORECAST FOR THE
PERIOD 2009/10 – 20011/12**

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THREE YEAR FINANCIAL FORECAST FOR THE PERIOD 2009/10 – 2011/12

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 2009-10 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 excluding the capital project. This means no growth in student numbers from those funded for 2009/10.
- Prudent assumptions, particularly in relation to pay and non-pay expenditure.

The College has self assessed its financial health as satisfactory for the years covered by the financial plan. However, 2011 and 2012 have been computed as being inadequate and this is the result of the inclusion of £200k in each year for planned maintenance.

FORECASTING

Financial forecasting continues to be difficult due to two main factors:

- There is uncertainty over the likelihood of any capital project in the future
- 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 assumptions are:

- 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".
- No capital project, and no money due from the LSC for legitimate costs incurred to AiD
- £1m loan over 20 years at 5% interest to cover aborted project costs
- 2% increase in pay less anticipated savings from implementation of new contact time
- 1% non pay inflation apart from utilities, where 10% has been allowed
- £200k maintenance costs in 2011 and 2012
- Increase in 16-18 funding of 1.5% and 1.0% for 19+ as per LSC guidance, adjusted for 1% efficiency saving in 2011

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 below and the targets are set out in Appendix 1, based upon the revised targets being agreed earlier at this meeting.

- To remain financially sound so as to
 - Be able to continue in operation in the event of an unforeseen adverse change in its business, and thus protect staff, suppliers and stakeholders
 - Generate sufficient cash to enable the maintenance and improvement of its accommodation and equipment
- To maintain the confidence of funders, suppliers, bankers and auditors
- To raise awareness of College staff of the financial environment in which it operates
- To provide regular financial management appropriate for particular groups of users
- To consider and approve the financial implications of all major projects (over £50k) and ensure they will be subject to a post-implementation review
- Make financial and non financial returns within the agreed timescales and to the agreed format, and all audit certificates will be unqualified
- To generate sufficient cash flow to enable a programme of planned maintenance to be undertaken, to ensure that we can invest in new technology and equipment, to support learning programmes and administration
- To ensure adequate procedures are in place to protect assets from loss or neglect.

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 the financial plan itself.

CONCLUSION

Although the forecasts indicate that the College will not be generating surpluses, they represent a sound base for planning, and highlight the issues that the College will be facing over the next three years. 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 targets

Indicator	Target	2009-2010	2010-2011	2011-2012	Notes
Cash days in hand	Minimum of 25 days including short term investments	10.26 days	2.72 days	(12.97) days	This is due to the increased maintenance costs forecast. Continued tight cash management should see the position improve.
Operating surplus as % of income	Minimum of 0.5% To be 2% by 2011/12	0.38% excl property strategy	(3.03)%	(4.87)%	Deficits forecast due to increased maintenance requires as no capital project. The situation will be examined annually and decisions made when the budgets are set.
General reserves over income.	Minimum of 10%.	6.18%	4.03%	-0.33%	Reserves have decreased due to the impact of the aborted capital project. This will recover over time if surpluses made.
Cash generated from operations as % of income	Minimum of 3%	0.04%	0%	(0.02)%	Cash is not predicted to be generated as significant planned maintenance required.
Current assets to current liabilities ("current ratio")	Minimum of 1.0	0.88	0.43	0.17	This reflects the need to use bank borrowing to fund the ongoing operations of the College
Pay as % of income	Achieve sixth form college benchmark by 2011/12	73.26%	74.16%	73.83%	The ratio is improving, with the increase in 2011 due to the required 1% efficiency saving. More work is needed to reach the sector benchmark (68.58% in 2007/08)

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