FINANCIAL COMMENTARY AND MANAGEMENT ACCOUNTS

For The 5 Months Ended 31 December 2016

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SECTION 1

EXECUTIVE SUMMARY - KEY FINANCIAL RESULTS

BACKGROUND

1.1 The College is currently operating under a notice of concern for its finances as result of an operating deficit in 2013-14 following an inadequate Ofsted rating in March 2013. In the period since then the College has delivered underlying operating surpluses and is rated as Satisfactory for financial health by the SFA. The College seeks to manage its financial affairs responsibly and to maintain robust financial health at all times, including producing timely, comprehensive and transparent monthly management accounts.

1.2 This document is the financial commentary and management accounts for the 5 months-ended December 2016 and sets out performance to date and projected performance for the remainder of the year.

INCOME AND EXPENDITURE ACCOUNT

1.3 The FRP included a key target to return an operating surplus of £235,000 for 2016-17. At 31 December 2016 the position is an operating deficit of £121,000 against a profiled surplus of £96,000. The forecast position for year-end is an operating surplus of £145,000 before restructuring costs of £20,000, which were due to the under provision for 2015-16.

1.4 A summary College income and expenditure account is attached as annex A and summarised in Table 1 below. A more detailed explanation of budget variances is provided in section 2

Table 1 Summary Income and Expenditure Account

	Budget YTD £000s	Actual YTD £000s	Variance YTD £000s	Annual Budget £000s	Forecast Outturn £000s	Variance £000s
Income	6,368	6,049	(319)	15,284	14,997	(287)
Pay Expenditure	3,984	3,758	226	9,557	9,500	57
Non Pay Expenditure	2,288	2,392	(104)	5,491	5,352	139
Total Expenditure	**6,272**	**6,150**	**122**	**15,048**	**14,852**	**196**
Operating Surplus	**96**	**(101)**	**(197)**	**236**	**145**	**(91)**
Restructuring Costs	0	(20)	(20)	0	(20)	(20)
Operating Surplus	**96**	**(121)**	**(217)**	**236**	**125**	**(111)**

BALANCE SHEET

1.5 A detailed College balance sheet is attached as annex B and summarised in Table 2 below. A more detailed explanation of budget variances is provided in section 3.

Table 2 Summary Balance Sheet (Extract)

	Open Balance £000s	Actual YTD £000s	Move YTD £000s	Annual Budget £000s	Forecast Outturn £000s	Variance £000s
Fixed Assets	**50,112**	**49,440**	**(672)**	**48,525**	**48,476**	**(49)**
Current Assets	1,944	2,247	303	1,876	2,080	204
Current Liabilities	(4,293)	(4,793)	(500)	(3,833)	(4,089)	(256)
Net Current (Liabs)	**(2,349)**	**(2,546)**	**(197)**	**(1,957)**	**(2,009)**	**(52)**
(of which cash)	**1,601**	**1,623**	**22**	**1,485**	**1,747**	**262**
Long Term Liabs	**(51,804)**	**(51,056)**	**748**	**(43,934)**	**(50,383)**	**(6,449)**
Total Net Assets	**(4,041)**	**(4,162)**	**(121)**	**2,634**	**(3,916)**	**(6,550)**
Total Reserves	**(4,041)**	**(4,162)**	**(121)**	**2,634**	**(3,916)**	**(6,550)**

CASHFLOW

1.6 A cashflow statement (in the format prescribed in the statutory accounts) is attached as annex C and summarised in table 3 below. It highlights that the College has positive cashflow from operations of £743k as at 31 December 2016. This is forecast to increase to £1,880k for the year-end position.

1.7 Cash at bank including investments as at 31 December 2016 amounted to £1,623k: an increase of £22k compared with the position as at 31 July 2016 but a decrease of £110k against a forecast of £1733k. This is largely due to an increase in non-pay expenditure and learner support fund payments against the budgeted profile which will even out over the forthcoming months.

1.8 As at 31 December 2016 the College had 39 cash days in hand. A detailed cashflow statement is attached as annex D and summarised in Table 3 below.

Table 3 Summary Cashflow (Extract)

	31-7-16 £000s	Actual YTD £000s	Move YTD £000s	Annual Budget £000s	Forecast Outturn £000s	Variance £000s
Cash from Operat'ns	**2,093**	**743**	**n/a**	**1,795**	**1,880**	**85**
Cash	**1,601**	**1,623**	**22**	**1,485**	**1,747**	**262**

KEY FINANCIAL INDICATORS

1.9 The FRP, including the budget for 2016-17 included 5 key financial indicators. Based on the management accounts and financial projections for the remainder of the year the performance against the 5 indicators is detailed in table 4 below:

Table 4 Key Financial Indicators

	Budget YTD	Actual YTD	RAG	FRP Target	Forecast Outturn	RAG
Operating Surp/(Def)	96	(121)	Amber	235	125	Amber
Cash Balance	1,733	1,623	Amber	1,485	1,747	Green
Cash Days In Hand	42	39	Amber	36	43	Green
Current Ratio	0.52	0.47	Amber	0.49	0.51	Green
Pay as % Income	63%	62%	Green	62%	63%	Amber

1.10 On the basis of these financial indicators the College assesses its financial health as falling into Satisfactory but it should be noted that even a minor adverse change would lead to an automated rating of inadequate under the SFA scoring method.

BANKING COVENANTS

1.11 The College operates to 2 banking covenants with Barclays Bank, namely, Debt Service Cover and Operational Gearing. On the basis of the forecast outturn for the year the College is projected to fulfil the covenants, as follows:

Debt Service Cover	**Forecast £000s**	**Operational Gearing**	**Forecast £000s**
Net Cash Inflow Op's	1,880	Operating Surplus	125
Interest Received	10	Deferred Capital Grant	(585)
Capital Expenditure	(100)	Depreciation	1,736
Net Cash	1,790	Interest Payable	525
Reduction from 2015/16		Exceptional Restructuring	0
		Adjusted Operating Surplus	**1,801**
Available Cashflow	**1,790**		
		Borrowings	
Interest Paid	525	Car Park	4,152
Loan Repayment	400	Barclays	10,214
Capital on Leases	103		
Debt Service Cost	**1,028**	**Total Borrowings**	**14,366**
Debt Service Cover Ratio	**174%**	**Operational Gearing Ratio**	**798%**
Target	**100%**	**Target**	**<800%**

1.12 It should be noted that the operational gearing measure is only just within the covenant limit. Any adverse change to these projections would result in a breach of covenants.

SECTION 2

INCOME AND EXPENDITURE ACCOUNT

BACKGROUND

2.1 All income and expenditure of the college has been identified using the "accruals concept". The accounts also include a number of items that do not impact upon cash flow, such as depreciation and amortisation of capital grants.

2.2 The major income grant streams are brought into the accounts throughout the year to date in accordance with the ILR achievement return. All third party income achieved pertaining to the actual accounting period is identified either through actual invoiced amounts or actual cash received.

2.3 The underlying operating deficit for the five months ended 31 December 2016 amounted to £101k compared to a budgeted surplus of £96k: an unfavourable variance of £197k. In addition, restructuring costs in the period amounted to £20,000 making an overall operating deficit of £217,000.

INCOME

2.4 As at 31 December 2016 College income for the year to date was £6,049k against a profile of £6,368k: an unfavourable variance of £319k.

2.5 The College has key funding contracts with EFA, for 16-18 FE programmes, with SFA for 19+ FE programmes and 16-18 & 19+ apprenticeship programmes, and the Local Authority for 14-16 programmes, as shown in Table 5 below.

Table 5 Performance Against Key Funding Contracts

	Target Funding YTD	Earned YTD	Variance YTD	FRP Funding Target	Forecast Outturn	Forecast Variance
SFA 19+ Classroom	878	711	(167)	2,106	2,106	0
SFA 19+ Apprentices	339	135	(204)	477	411	(66)
Total Adult Skills	**1,217**	**846**	**(371)**	**2,583**	**2,517**	**(66)**
EFA 16-18 (FE) ILR	3,553	3,160	(393)	8,528	7,585	(943)
EFA 16-18 (FE) Alloc	0	393	393	0	943	943
Total EFA 16-18	**3,553**	**3,553**	**0**	**8,528**	**8,528**	**0**
SFA 16-18 Apps	**393**	**289**	**(104)**	**1,100**	**914**	**(186)**
LA 14-16	**31**	**21**	**(10)**	**75**	**75**	**0**
Total	**5,194**	**4,709**	**(485)**	**12,286**	**12,034**	**(252)**

2.6 Income in respect of these contracts is £485k below the profile budget for the five months ended 31 December 2016. The shortfall is forecast to be reduced to £252k principally because the delivery of apprenticeship income will increase during the remainder of the year. The College is guaranteed to retain 100% of the EFA grant regardless of in-year performance.

2.7 The Mid-Year Review will be looking at the Forecast Outturn for grant funding as indications from the latest ILR return are showing that the forecast variance shortfall will increase to £509k, based upon 80% achievements.

2.8 Other agency income earned as at 31 December 2016 amounted to £40k in line with full year forecast of £96k.

2.9 Student tuition fees earned to date in the five months ended 31 December 2016 total £654k, £6k above the budget profile of £648k principally due to the large volume of adult fees being met from the learner support fund. HE fees, advanced learner loans and full cost fees are below budget and the final outturn will reflect that. The forecast for the full year is £1,210k: £177k below the funding targets.

Table 6 Performance Against Tuition Fee Target

	Target Funding YTD	Earned YTD	Variance YTD	FRP Funding Target	Forecast Outturn	Forecast Variance
Tuition (Home)	105	261	156	253	261	8
Tuition (HE)	64	23	(41)	153	45	(108)
Adult L3 Loans	162	115	(47)	388	305	(83)
Tuition Full Cost	110	71	(39)	263	163	(100)
Emp – Bus Dev	207	184	(23)	330	436	106
Total	**648**	**654**	**6**	**1,387**	**1,210**	**(177)**

PAY

2.10 Pay expenditure for the year to date is £3,758k against a profile of £3,984k: a favourable variance of £226k. Pay costs for the year are expected to be £9,500k: £58k under the full year budget.

2.11 Indications are showing that the outturn for Pay costs will come in at under the forecast of £9,500k which will be looked at in the Mid-Year Review. Offsetting the additional shortfall in grant funding.

Table 7 Performance Against Pay Expenditure Targets

	Actual YTD £000s	Budget YTD £000s	Variance YTD £000s	Budget 2016-17 £000s	Forecast Outturn £000s	Forecast Variance £000s
Academic Estab	2,570	2,663	93	6,406	6,361	45
Academic PT	166	304	138	733	722	11
Support	1,022	994	(28)	2,387	2,361	26
Other	0	23	23	32	56	(24)
Total	**3,758**	**3,984**	**226**	**9,558**	**9,500**	**58**

NON PAY

2.12 As at 31 December 2016 non-pay expenditure for the year to date was £2,392k against a profile of £2,288k: an adverse variance of £104k.

2.13 The principal variances for the year to date relate to spending ahead of profile especially Examination charges offset, in part, by reduced charges for depreciation and interest.

2.14 It is forecast that non-pay expenditure for the full year will be £5,352k; a favourable variance of £139k relating to the release of prior year accruals for which anticipated commitments are not expected to arise.

SECTION 3

BALANCE SHEET

BACKGROUND

3.1 A detailed balance sheet is attached as Annex B to these accounts. Movements against key balance sheet lines are summarised in table 8, below.

Table 8 Summary of Balance Sheet Movements

	Actual 31-7-16 £000s	Actual 31-12-16 £000s	Movement YTD £000s	Forecast 31-7-17 £000s	Forecast Movement £000s
Fixed Assets	50,112	49,440	(672)	48,476	(964)
Net Current (Liabilities)	(2,349)	(2,546)	(197)	(2,009)	537
Long Term (Liabilities)	(32,102)	(31,560)	542	(31,009)	551
Other (Liabilities)	(19,702)	(19,496)	206	(19,374)	122
Net Assets	**(4,041)**	**(4,162)**	**(121)**	**(3,916)**	**246**
I&E Reserve	13,991	13,870	(121)	14,116	246
Pension Reserves	(18,032)	(18,032)	0	(18,032)	0
Total Reserves	**(4,041)**	**(4,162)**	**(121)**	**(3,916)**	**246**

3.2 Additions to capital assets in the year to date amount to £38k. Further expenditure of £62k is forecast.

3.3 Trade debtors as at 31 December 2016 amount to £394k, compared with a forecast of £161k.

3.4 As at 31 December 2016, the College had net current liabilities of £2,546k. The forecast for the year is £2,009k largely due to the reduction in funding agency income being held as deferred income within creditors.

3.5 Due to FRS 102, Capital Grants are now shown within current liabilities for amounts less than 1 year and the balance as a long term liability.

LIQUIDITY

3.6 Cash at bank including investments as at 31 December 2016 amounted to £1,623k; an increase of £22k since 31 July 2016.

SECTION 4

SCHOOL AND DEPARMENT PERFORMANCE

BACKGROUND

4.1 The College budget is devolved to schools and departments. This includes all income, pay expenditure and non-pay expenditure. The financial model is based on income generating schools realising a contribution from income, after direct costs, to meet the cost of the support services and overheads.

4.2 The financial performance of schools and departments to 31 December 2016 is detailed in annex E attached and summarised in this section.

Table 9 Schools and Departments Financial Performance

	Actual YTD £000s	Budget YTD £000s	Variance YTD £000s
Schools			
Income	5,290	6,266	(976)
Pay Expenditure	2,605	2,842	237
Non Pay Expenditure	282	305	23
Total Expenditure	2,887	3,147	260
Contribution £000s	**2,403**	**3,119**	**(716)**
Contribution %	**45%**	**50%**	**(5%)**
Departments			
Income	759	102	657
Pay Expenditure	1,173	1,142	(31)
Non Pay Expenditure	2,110	1,983	(127)
Net Expenditure	**2,524**	**3,023**	**499**

4.3 The overall contribution from Schools at the end of December 2016 is 45% compared to a budget 50%, representing an adverse variance of £716,000. The shortfall is principally because of shortfalls against income targets.

4.4 The majority of programme areas are operating at below planned contribution, most notably:

- Business Development, £304,000 below
- Digital Industries, £221,000 below
- Business, Professional, Access & Science, £177,000 below.

4.5 The programme areas currently operating above the planned contribution level, most notably are:

- ESOL, £85,000 above
- Service Industries, £100,000 above