

Commentary for Halesowen College's Financial Forecasting Return July 2021 Halesowen College Strategic Objectives

Mission, Vision, Strategy and Objectives

A strategic plan has been adopted with Halesowen College's current stated purpose:
To enable students, staff, the economy and the community to Learn, Succeed and Flourish
Halesowen College core values are focused on:

- Inclusivity, equality and diversity
- Respect
- Commitment
- High aspirations
- Integrity and honesty
- Responsibility
- Support, safety and care

During 2020/21 the strategic aims of Halesowen College have continued to be:

*To provide the highest quality teaching and learning leading to excellent outcomes.
To support the local community and economy by providing the broadest range of purposeful and
appropriate educational opportunities.*

The College's estate and other resources are fit for 21st century learning.

*The College remains financially sound and able to respond to the needs of learners, employers
and the local community.*

At a more detailed level, the Corporation have developed a set of annual targets and an annual plan containing strategic targets/goals.

A change in Leadership and developments with the educational, economic, political and social framework has resulted in the College seeking to refresh its strategic plan following the appointment of a new Principal/Chief Executive Officer.

The strategic plan aims to enable continued success and development at outstanding levels of performance and recognition. The College has responded to the requirements of the national and local Industrial Strategies in its strategic objectives. The key components within the plan were subject to consultation with staff, students, partners and the wider community. In defining strategies and associated aims the College has evaluated current and emerging strengths and challenges encompassing a broad range of factors including educational, economic, political, financial and demographic aspects.

The College is now working towards these objectives and will use this as a platform to drive forward towards excellence. Throughout the period of a Strategic Plan it is essential that the attainment of priorities is kept under scrutiny to ensure that the College achieves its full potential and flexes its approach to encompass unexpected events. Priorities will again be continuously reviewed through the planning and accountability cycle and to inform the annual review.

The strategic plan provides a fundamental platform to attain challenging ambitions over a three to five year period. The strategies are reviewed annually within the planning cycle based on a clear set of targets to put in place the vision for the College.

In developing the new strategic plan, the college has focused on educational character which can be summarised as “a lively, ambitious and highly inclusive tertiary college providing a broad and extremely supportive education to young people from across the West Midlands, and an increasing range of vocational Higher Education courses, Apprenticeships and training for adults”.

The purpose has been revised to “Halesowen College exists to provide the exceptional education, training and support that will transform life chances and equip our community to flourish in a changing world.”

The new strategic plan builds on previous achievements and is structured around these six aims:

- A broad, inclusive, responsive and purposeful curriculum
- Exceptional teaching, learning and outcomes
- Learning environments that make a difference
- A diverse, empowered, supportive and accountable community
- Finance and resources: sound finances to allow investment and keep us ahead of the game
- Reputation as the go-to college

The College operates on a committee structure. The approach to reporting has been focussed on key issues affecting the strategic overview of the College. This is based on items falling within the risk framework set out in the plan and emerging developments. The College operates, in addition to the statutory committees, a Finance and General Purposes, Students, Curriculum and Quality and Remuneration Committees.

This Committee structure allows a more detailed discussion to ensure adequate challenge and support for the senior management team and facilitate the continued high standards at Halesowen College.

The CFFR is consistent with the Corporation;’ strategic vision to maintain sound finances to allow investment and keep ahead of the game the following objectives are the basis of this forecast:

- plan the college’s finances for future sustainability
- maximise income from key funding streams
- seek opportunities for diversification and enterprise
- manage the balance between efficiency and quality
- invest purposefully for the college and students’ future

The following KPIs will ensure that these challenging yet achievable objectives are met:

- Liquidity >4
- EBITDA as a% of income >8%
- Borrowing as a % of income <17%
- Pay as a % of income <60%

Year on Year Movements

The college income base is growing modestly. The financial model for 2021/22 is more challenging given that it is predicted on a growth model. However, despite increased costs, most notably of pay, the financial position is reasonably stable with the largest source of income guaranteed through the lag. Financial targets associated with outstanding financial health will be challenging yet remain achievable.

The pay budget is derived from the current curriculum plans with the critical mass of delivery on site but retaining some elements of online learning. The curriculum plans have been prepared on a growth model. If the student numbers are not realised, then the pay establishment will need to be reconsidered early in the autumn term. Approximately £250,000 of the pay budget relates to sessional staffing to build some flexibility into the model. Despite the increase in pay, a number of savings from support staff and management have been made.

The non-pay costs in certain areas have increased modestly overall with key changes on the current year model:

- Costs of staff training have decreased as more professional development is conducted online negating the costs of travel and accommodation
- Increased costs of car allowances as assessors and work placement co-ordinators resume regular visits to learners in the workplace
- Equipment and licenses increased as additional digital licenses are required to support online and blended learning plus existing licenses are increasing sharply in price notably Adobe and Microsoft
- Insurance has increased to provide enhanced levels of cover for cyber and employers liability
- Exams has increased to reflect a more traditional year in 2022
- Student welfare increased to reflect the level of grant awarded

The balance sheet is stable across the period except for the turbulence caused by the valuation of the College's share of the LGPS pension fund liabilities calculated in accordance with FRS102. Cash reserves are being utilised to provide ongoing investment in the college in accordance with the strategic plan, but the level of liquidity needed to retain outstanding financial health will not be compromised.

Outturn 2021

In accordance with the Financial Regulations of Halesowen College annual estimates of income and expenditure must be prepared. These are considered and subsequently approved by the Corporation with any changes to the budget considered and approved by the Finance and General Purposes Committee throughout the year. Should the review result in a material change to financial health or that financial targets were no longer achievable then the Committee would refer the budget back to Corporation. The budgeting, target setting and forecast processes are essential to ensure that the College exercises adequate financial control over its resources and establishes limits within which the College can operate and achieve its overarching strategies. The budget is formally reviewed termly risk factors in the income base and expenditure profile re-evaluated.

Despite ongoing challenges, the current year remains stable financially and the College is forecast to retain its outstanding financial health. The financial strategy continues to be to balance the need to invest in the future against the benefits of outstanding financial health whilst always retaining resilience and a well geared balance sheet.

<u>Summary of Budget 2020/21</u>						
	2019/20 INITIAL	2019/20 REVISION 3	2020/21 INITIAL	2020/21 REVISION 1	2020/21 REVISION 2	2020/21 REVISION 3
Income	27,404,516	27,514,664	27,719,372	28,526,364	28,323,014	28,442,471
Non pay	10,429,329	11,116,011	11,012,778	11,517,073	11,349,243	11,401,387
Pay	16,313,895	15,811,000	16,280,720	16,543,132	16,550,752	16,600,752
Surplus/(Deficit)	661,292	587,653	425,874	466,159	423,019	440,332

Whilst the overall surplus (net of FRS102 charges) remains constant there are several movements in income, pay and non-pay. The main points are:

- Income for Covid testing
- Reduced level of apprenticeship income
- Continued loss of commercial income
- Consolidation of a pay award
- Additional costs for external audit

Key risks to the financial model remain as follows:

- Funding methodology no longer being fit for purpose in a post lockdown delivery model
- Failure to achieve contractual targets/ student numbers (AEB)
- Uncertainty with apprenticeships and work placement
- Failure to maintain financial targets to at least a health standard of good
- Overspend on pay budget
- Cost pressures associated with the living wage and National Insurance and pensions costs
- Ongoing costs of PPE and Covid testing
- Decline in recruitment/retention/achievement of students
- Failure to maintain reputation and competition from other providers
- Failure to manage capital development/budget overspend
- Rising prices on key non-pay items
- Failure to move to digital platforms
- Failure to meet quality standards
- Failure to achieve value for money

Overall, the College remains financially stable despite a continued landscape of increased risk.

Cash Flow

The risks to the financial model are outlined above. The college has a very strong liquidity position and there is no risk of the ratio falling below 2 in the model. Despite this there is no room for complacency and the monthly cash flow is an integral part of the management accounts pack. The financial dashboard would highlight any concerning trends and allow positive remedial action at a very early stage.

Contribution of areas of material activity

It is important that the College Corporation and leadership team understand how the institution generates its income and how resources are expended. In addition, there must be clarity regarding priority areas and levels of investment to support the strategic plan. The budgetary process and effective budgetary control are integral to ensure that resources are allocated appropriately, and that the College retains robust financial health. Financial Regulations state that in order that the College exercises adequate financial control over its resources, the Principal will prepare annual estimates of income and expenditure to be considered in detail by the Finance and General Purposes Committee and subsequently approved by the Corporation. The framework for the establishment, revision and monitoring of revenue budgets set out in Financial Regulations is supplemented by a Budgeting Policy which provides further details of:

- roles and responsibilities

- rationale for budget preparation
- monitoring of budgets
- evaluation of financial performance
- process of budget preparation
- determination of budget

A costing system is an extension to the budgetary process and ensures that College activities generate the required level of contribution to overhead to support fixed costs and realise the target levels of surplus for ongoing investment.

The College has a costed curriculum model which has the following objectives:

- To establish a methodology which is easily understood and easily applied thus contributing to the open and transparent style of financial management within the College.
- Setting financial information against a range of non-financial factors such as quality statistics, enrolment trends and labour market information builds up a holistic picture of each division and supports the Ofsted approach of intent, implementation and impact
- An effective tool to assist managers in establishing whether activities are financially viable before they are offered. However, costing must not be the sole factor when considering College provision. Educational factors especially those coterminous with national, regional and local priorities must be focal to the decision making process.
- Provides increased clarity regarding financial parameters; for example, determination of minimum class size, promotes ownership of developments within curriculum teams.
- To ensure that the fixed costs of the College can be supported by the portfolio of activities at any given time.
- To enhance the scope and detail of management information.
- To support the tuition fee policy forming a basis for pricing of courses for adult learners. This should take into account any national directives concerning fees, relevant College policies and local educational priorities.
- Control the cost of curriculum delivery within income levels.
- Manage the delivery of curriculum elements within overall programmes to derive an income/cost balance.
- Provide a flexible framework in which curriculum managers can deliver activities to meet learner needs whilst ensuring value for money.
- Promote efficiency, effectiveness and economy.

The College has established a challenging target of a 50% contribution rate for all curriculum areas. Currently the College overall is falling short of the challenging target of a 50% contribution rate by 1 percentage point. This correlates with the financial pressures highlighted in the budget for 2021/22 as whilst the college can retain outstanding financial health, this is much more challenging as the model is predicated on growth. Through the lagged model and finite resources for AEB and apprenticeships then the College, in the short term, may deliver more activity than it is paid. This is a feature of the lagged model and the need to demonstrate growth and build capacity in priority areas before additional contracts are awarded.

Where areas are making a lower contribution, the key reason is small group size. This is a key factor to monitor and manage in the year ahead. However, the College is committed to breadth of curriculum in order to meet the needs of the learner and employers. There may be some curriculum redesign in order to create a more efficient model.

Halesowen College Enterprises Limited

Halesowen College Enterprises is a company limited by shares and wholly owned by Halesowen College. It was incorporated on 16 February 1993. The Company's registration number is 2790416. This company operates all commercial and for profit activities at Halesowen College. Halesowen College Enterprises provides and promotes College retail outlets plus other profit making activities including room hire, non-funded bespoke training and the sale of study aids and

other retail goods. The Company employs retail and cleaning staff to provide high quality ancillary services to the College.

The Company has a business plan; a comprehensive, future oriented, continuous process of management which is implemented within a formal framework. The aim of this business plan is to establish the strategic objectives for the short and medium term including a clear financial profile. This business plan is not reflective of the current position but based on eased lockdown restrictions and a return to on site delivery from September 2021. The lockdowns due to the covid19 pandemic impacted significantly on the company and resulted in the modest surpluses previously achieved being eroded to the point where 2020/21 may be a deficit position. In accordance with the government's roadmap for lockdown easing, this budget has been prepared on 2018/19 levels of trade.

The financial plan/budgets must be continually monitored and updated as appropriate throughout the financial year in order to identify any significant variances or adverse trends and take prompt management action/re-forecast. This is especially pertinent in a year where it is hoped that there will be no further restrictions enforced due to Covid19.

It is also necessary to formally review the business plan annually to re-evaluate the objectives, opportunities and risks. Halesowen College Enterprises' Business Plan expresses clearly in quantifiable terms the costs of achieving the Company's current objectives which contribute to those defined in Halesowen College's Strategic Plan. In addition, the income and expenditure profile associated with a projected volume of activity is stated. The financial plan indicates to the Company Directors and College governing body via the consolidated business model the current and projected financial health, and activities of the Company. As stated above the objectives of the Company contribute to and are in accordance with the College's stated purpose to Learn, Flourish and Succeed and, its overarching strategic aims.

The establishment and running of a limited company is not without risk and the financial consequences can be substantial if a trading venture results in financial loss and a possible claim by third parties. As such, risks must be identified and monitored with systems in place to ensure operational effectiveness, probity and accountability in relation to the use of funds.

It is vital that the Company earns sufficient income to cover all costs and ensure appropriate:

- use of funds
- transparent accountability and governance
- robust business planning
- effective risk management
- high quality and vigorous financial control
- levels of customer satisfaction
- excellent quality
- compliance with statutory requirements

Due to the current trading position the Company may realise a loss at 31 July 2021. Halesowen College has provided a guarantee of support to January 2022.

Servicing of Debt and Capital Projects

The college has an ambitious estates strategy. The main purposes of this strategy are as follows:

- to ensure that the College has an excellent estate to respond to current and future business needs and utilises its current outstanding financial base to invest in the pursuance of excellent learning and teaching for all.
- that the estate contributes to an outstanding student experience in terms of location, size, configuration and quality.

- to commit to an effective and efficient maintenance programme which underpins capital development and keeps the estate fit for purpose and compliant with all relevant statutory requirements.
- Achieves environmental targets

The estate is one of the College's most valuable assets and therefore it is important to develop a strategy which is well managed and linked directly to:

- curriculum development
- the needs of learners
- stakeholders and partners
- affordability.

The College, through this estate's strategy will aim to use any grant funding to:

- Increase utilisation – more versatile and suitable spaces that will support greater flexibility to meet current needs and to adapt to future needs.
- Estate rationalisation and efficiency – reducing inefficient space which is no longer fit for purpose and rationalising estates to deliver reduced operating costs, generate efficiencies and allow for more effective targeting of resources
- Promote financial sustainability – through operational savings and/ or ability to generate additional income.
- Improve accessibility and suitability of estate for SEND and disabled learners and staff

The College has bid via the FE Capital Transformation Fund for a £5.3m project. We seek to refurbish our Shenstone Campus (FE01) to address significant structural and access issues identified by an independent survey; upgrade the site to Category A and, provide an industry standard learning environment for healthcare science, care and nursing professions. Many curriculum areas already benefit from high quality accommodation and we aim to standardise this across College. Capital grant support of 70% is sought for this project with any balance being funded from reserves.

A bid has also been submitted to the Post 16 Capacity Fund. This plan involves the construction of a new block on the Whittingham site which we aim to be carbon zero as part of our College wide environmental strategy which aims to reduce carbon footprint by 50% by 2025. The other aspect of the project is to relocate our hair and beauty curriculum to a High Street location in Halesowen town. There are a significant number of vacant units in the town and the inclusion of college salons would not only provide realistic work experience for our learners but contribute to the economic regeneration of the town. The cost of this is £2.4225m with £1.69575m requested as a capital grant. Again, the match would be from College reserves.

These projects are fully reflected in the model. It is not anticipated at this point that the College will need to seek no borrowing providing that the capital grants are approved at the specified level.

Financial Health

The College retains its outstanding financial health throughout this forecast model and has no request to moderate the automated grade.

Assumptions

In preparing the 2021/22 budget the following assumptions have been made:

Income

The main grant for 16-18 is secure income as this followed the lagged model. However, beyond 2021/22 there is less certainty. There is no inflationary aspect in the 2021/22 model. The College is embarking on a period of growth which will be reflected in the new strategic plan. For 16-18 learners this is partly derived from demographic upturn. Increase in study programme learners can result in financial pressure as there is no guarantee of any in year growth through the lagged funding model. For apprenticeships and adult skills, the College is aiming to increase its market share and be a pivotal part of the plan to economic recovery for the locality following the lockdowns necessary due to the pandemic.

The level of AEB funding from the WMCA is confirmed. However, the college has bid for funding from the National Skills Fund to build capacity for adult skills at level 3 in priority areas. This is not consolidated into the model as at the time of presenting the budget to the corporation we were uncertain if the bid would be successful.

Income from apprenticeships has been increased. The team has been restructured and there is a firm development plan in place to grow provision whilst improving quality. It has been difficult for learners to gain employment in lockdown and the associated economic recession. The team are working closely with employers to offer a relevant curriculum which has positive impact on the local economy.

The TPA support is now integrated into this budget heading.

Income from HE is forecast to be higher than in the previous year. It is expected that many students deferred their studies until 2021 due to the pandemic. Numbers on several HE courses already show an increase year on year for example sport and business HNC/D. The College is working with university partners to build additional progression pathways in priority areas for 2022 entry.

Other sources of income are included based on projected levels of activity. Income from bids is only included once the bid has been approved.

The level of consolidation from the company reflects the company business plan which as stated above is based on a pre pandemic trading profile.

Pay

The pay budget is derived from the current curriculum plans with the critical mass of delivery on site but retaining some elements of line learning. The curriculum plans have been prepared on a growth model. If the student numbers are not realised, then the pay establishment will need to be reconsidered early in the autumn term. Approximately £250,000 of the pay budget relates to sessional staffing to build some flexibility into the model. Despite the increase in pay, a number of savings from support staff and management have been made.

It is assumed that there are no employer pension increases in 2021/22.

No pay award is recommended in the model at this point as this is also a consideration for the autumn term.

Non Pay

The non-pay costs in certain areas have increased modestly overall with key changes on the current year model:

- Costs of staff training have decreased as more professional development is conducted online negating the costs of travel and accommodation
- Increased costs of car allowances as assessors and work placement co-ordinators resume regular visits to learners in the workplace
- Equipment and licenses increased as additional digital licenses are required to support online and blended learning plus existing licenses are increasing sharply in price notably Adobe and Microsoft
- Insurance has increased to provide enhanced levels of cover for cyber and employers liability
- Exams has increased to reflect a more traditional year in 2022
- Student welfare increased to reflect the level of grant awarded

Beyond year one of the forecast, the assumption hold firm. The income for 16-18 has increased based on a growth of 3% year on year. Based on the demographic shift and the trajectory of the applications this is a modest increase.

Sensitivity analysis

The risks to the financial model are detailed above.

The College aims to identify, evaluate and continuously manage threats and maximise opportunities to ensure the best achievement of the College's mission and strategic objectives, and to discharge fully all statutory responsibilities. A main part of the risk strategy is the risk profiling methodology which determines the threats in terms of likelihood and consequence at both inherent and residual level after taking account of mitigating factors and controlling actions.

The college has a Risk Management Policy which forms part of the College's internal control and corporate governance arrangements.

The policy explains the College's underlying approach to risk management, documents the roles and responsibilities of the Corporation, the Audit Committee, College Leadership Team and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process the Corporation will use to evaluate the effectiveness of the College's internal control procedures.

Good risk management and early and ongoing identification of risks are essential to success, ie:

- planned objectives are more likely to be achieved
- adverse risks are less likely to happen
- the impact of adverse risks which are realised are reduced

Given the current financial health and level of cash reserve the College is resilient to adverse events and has indeed responded to Covid 19, at some considerable cost, without compromising the student experience or quality of education.

The core risk to the model is student numbers. Halesowen College operates in a competitive patch for 16-18, adult and apprentices. Should the volume of students not materialise then the model will need to be recalibrated. However, significant levels of turbulence in student numbers are not anticipated.

Conclusions

Halesowen College approaches 2021/22 from a position of financial strength. The budget model is one of growth which presents challenge, yet the financial model is achievable and it supports the strategic objectives . Effective risk management frameworks preserve financial resilience and allow early remedial action if required.