Halesowen College

Commentary for Halesowen College's Financial Forecasting Return July 2022
Halesowen College Strategic Objectives

Purpose, Vision, Strategy and Objectives

Halesowen College is 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.

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.

To be the first choice college in our region for learners, parents, businesses and staff, working with partners to achieve remarkable things.

Strategic Aims and Objectives

Halesowen College has a strategic plan which is reviewed regularly and underpinned by an annual plan which sets clear and measurable targets to drive the College towards its goals. Our strategic objectives are currently as follows:

Our offer	***Our quality***	***Our environment***	***Our resources***	***Our reputation***
A BROAD, INCLUSIVE, RESPONSIVE AND PURPOSEFUL CURRICULUM	**EXCEPTIONAL TEACHING, LEARNING AND OUTCOMES**	**LEARNING ENVIRONMENTS THAT MAKE A DIFFERENCE**	**SOUND FINANCES TO ALLOW INVESTMENT AND KEEP US AHEAD OF THE GAME**	**A REPUTATION AS THE GO-TO COLLEGE**
Our people	**A TRULY DIVERSE, EMPOWERED, SUPPORTIVE AND ACCOUNTABLE COMMUNITY**			

Halesowen College values are stated as:

- We aim high and support everyone to achieve their best.
- We work together and we work hard.
- We are inclusive and value diversity.
- We are open, honest and take responsibility.
- We innovate and always look for improvement.
- We recognise and celebrate achievement.

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 and the imperative to fully integrate the skills agenda at a strategic level to support the Local Skills Improvement Plan and ensure the College is addressing the skills deficit in our area.

The Corporation is currently working with the senior team in order to reshape the plan and reflect on the values in order to drive the College forward; focusing on our key priorities of improving the standard of education and preserving financial resilience.

The strategic plan aims to enable continued success and development at outstanding levels of performance and recognition. The key components within the plan will be 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 uses its strategic vision and associated annual plan to work towards the objectives and will continue to 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 College has established transformational projects to ensure that resources make an impact. Investment will be targeted towards transformational projects which aim not just to execute a defined change but to reshape the College, change culture and behaviours and/or discover new ways of working based on our vision for the future. The transformational projects currently are:

- improve student attendance to facilitate the highest level of achievement and positive next steps.

- acquire and refurbish Trinity Point to create a new campus and create a centre of excellence for digital skills.

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 current strategic plan 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 revised strategic plan will build on this model.

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 Resources, Students, Curriculum and Quality, Personnel 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 financial resilience to allow investment in our environment and excellence in education. The College has an approved financial strategy. The objectives for finance in the strategic plan are:

- 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 strands of the financial strategy to support this are:

- to achieve long term financial security and match resources with the College strategic objectives.
- to develop productive capacity to meet current and future learning and resource objectives through the economic, efficient and effective deployment of resources.
- to plan and control the financing of College developments, ensuring that investment returns are optimised.
- to provide a consistent basis for evaluating strategic alternatives and developing effective financial planning and risk management.
- integrate and harmonise financial and other College strategies including curriculum, staffing, digital and estates.

The following KPIs (indicative of outstanding financial health) 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 <61%

Year on Year Movements

The College income base is growing modestly. The 2021/22 and the 2022/23 models included the Skills Accelerator funding for which the College was the lead partner on behalf of a consortium of West Midlands colleges. The income was realised gross and the funding passed to partners shown in non-pay.

The financial model for 2023/24 is challenging given a range of factors including:

- increased inflation
- ballooning utility costs
- recalibration of the pay scale due to the increase in NMW
- pay costs.

These increased costs, most notably in pay create a step change for the College. Whilst the financial position is still stable the rating will now fall to good given a forecast EBITDA ratio of 4.55 (educational specific). The largest source of income continues to be guaranteed through the lag. Financial targets associated with outstanding financial health cannot be achieved in 2023/24.

It is disappointing that for 2023/24 the income for work placement has been largely removed by the ESFA. This grant supported the cost of the placement officers and software. The growth in the

T levels and the additional funding associated with the placement element has not happened in a way to compensate for the removal of the grant.

The pay budget is derived from the current curriculum plans. The curriculum plans have been prepared based on progression and application trends. If the student numbers are not realised, then the pay establishment will need to be reconsidered early in the autumn term. Approximately £256,000 of the pay budget relates to sessional staffing to build some flexibility into the model. There has been an increase in pay given the 3.5% consolidated pay award in 2022/23; re-calibration of the pay scale due to 9.9% increase in National Minimum Wage and the rise in LGPS pension rates from 18.9% to 21.5%.

The College is currently re-negotiating the teaching staff contract which involves a revision in the number of teaching contract hours from 780 to 815.

Also, given the increase in student mental health fragility, resources have been invested in the safeguarding team in order to support students and help them attend and achieve.

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

- Agency staffing costs have reduced as the College aims to recruit to vacant posts and reduce reliance on agency staffing.
- Recruitment costs have re-based to 2021/22 levels. There were recruitment exercises for two senior post holders in 2023 which resulted in a higher level of spend.
- Electricity and gas have increased sharply due to rising prices. The College continue to use a specialised purchasing consortium for energy who have provided a new tool to forecast accurately.
- Hire of premises has increased to incorporate the additional costs of the mobile classroom rental at Coombs Wood. These will be in situ until 2025 when the current estates strategy is complete.
- Increased costs of car allowances as assessors and work placement co-ordinators have resumed regular visits to learners in the workplace and meeting move back to face to face.
- Equipment and licenses decreased given the removal of skills accelerator funding.

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 reflect outstanding financial health will not be compromised and the target of a liquidity ratio >2 will be maintained.

Outturn 2023

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 Resources 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.

Summary of Budget 2022/23	2021/22 INITIAL	2021/22 REVISION 1	2021/22 REVISION 2	2021/22 REVISION 3	2022/23 INITIAL	2022/23 REVISION 1	2022/23 REVISION 2	2022/23 REVISION 3
Income	29,612,436	30,010,503	30,767,442	31,290,244	32,200,194	32,122,124	33,775,010	33,884,324
Non pay	11,692,723	12,039,238	12,561,598	13,007,115	12,434,005	12,446,186	14,025,655	14,134,521
Pay	17,483,529	17,663,529	17,894,029	17,873,150	19,459,020	19,459,020	19,569,020	19,569,020
Surplus/(Deficit)	436,184	307,736	311,815	409,979	307,169	216,918	180,335	180,783

The College has seen a declining surplus during 2022/23 caused by several factors, including:

- increased agency staffing costs as posts are hard to fill.
- rising utility costs.
- higher subsidiary company recharges costs given increase in National Minimum Wage.
- given difficulty in staff recruitment starting salaries are higher and often the priority sector / hard to recruit uplift is applied.

Key risks to the financial model remain as follows:

- Funding methodology no longer being fit for purpose and the rate of funding inflation at 2.2% is inadequate.
- Failure to achieve contractual targets/ student numbers.
- Uncertainty with apprenticeships and work placement.
- Failure to maintain financial targets to at least a health standard of good.
- Overspend on pay budget.
- Recruitment and retention of staff.
- Cost pressures associated with the living wage and National Insurance and pensions costs.
- 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 meet quality standards.
- Failure to achieve value for money.

Overall, the College remains financially stable despite a continued landscape of increased risk and the move to good financial health. It is, however, important to maintain the balance between the two drivers of quality of education and financial resilience.

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 which is at least “good”. 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 Resources 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 3 percentage points. This correlates with the financial pressures highlighted. The College has engaged with the FE Commissioner to participate in the curriculum efficiency and financial sustainability support programme to further improve efficiency.

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 and a reconfiguration of rooming and digital resources 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, sales 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.

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.

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

The company aims to break even in 2023/24.

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 successfully bid via the FE Capital Transformation Fund for a £5.3m project. This will enable the College to refurbish the 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 50% is in place for this project with any balance being funded from reserves.

The College will procure an additional campus, Trinity Point, a disused office block in the town centre to create a centre of excellence for digital and media. The original plan was to draw down a £2.1m commercial loan to support the costs of purchase of £2.965m and utilise reserves for the associated phase 1 refurbishment. However, following reclassification back to the public sector in November 2022, this was no longer allowable and as such the project is now being funded wholly from 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 has retained its outstanding financial health for an extended period of time but given financial pressures this forecast model sees this move to good. There is no request to moderate the automated grade. For 2023/24 there is an updated financial ratios and financial health scoring model which may be used to develop further a new financial health assessment methodology in the future. This sees the ratio for borrowing being dropped but two limiting factors introduced:

- debt service cover (debt repayments/operating cash flow)
- cash as a percentage of adjusted income.

Assumptions

In preparing the budget the following assumptions have been made:

Income

The main grant for 16-18 is largely secure income as this followed the lagged model. However, there is again, in year clawback in 2023/24 for T levels. The College target for recruitment to a T level programme is 270 learners which equates to £1,567,342. Failure to achieve these student numbers is a key risk to the model. There is a 2.2% inflationary aspect in the 2023/24 model. For 16-18 learners there may be modest growth due to the continuing 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 for economic recovery in the locality and support to the priorities outlined in the LSIP.

The level of AEB funding from the WMCA is confirmed as is the value for Free Courses for Jobs which now encompasses some access courses which will realise higher levels of engagement in courses funded from this source.

Income from apprenticeships has been decreased. The team has been restructured and there is a firm development plan in place to grow provision whilst improving quality. The new team are working closely with employers to offer a relevant curriculum which has positive impact on the local economy. However, the financial impact of the increased cohort will take time to come through given the very low value of the carry in funding.

The TPA support is integrated into this budget heading.

Income from HE is forecast to be stable when compared to the previous year. Numbers on several HE courses already show a similar profile to 2022/23. The College is working with university partners to build additional progression pathways in priority areas for 2024 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. In budget revision one in the autumn term there may be secured funding for the LSIF as the College will lead on the digital strand.

The level of consolidation from the company reflects the company business plan.

Pay

The pay budget is derived from the current curriculum plans. The curriculum plans have been prepared on a modest growth model. If the student numbers are not realised, then the pay establishment will need to be reconsidered early in the autumn term. Approximately £256,000 of the pay budget relates to sessional staffing to build some flexibility into the model.

It is assumed that there are no employer pension increases in 2023/24.

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 overall given the current rate of inflation and especially energy increases.

Beyond year one of the forecast, the assumption holds firm.

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 in the short term.

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 is not anticipated.

A further pivotal risk is recruitment and retention of staff. The Trade Unions have already published their pay claim of 15.4%. This would equate to approximately £3m additional cost which is in no way affordable. Industrial action will inevitably have adverse impact on the student experience.

Conclusions

Halesowen College approaches 2023/24 from a position of financial strength although the challenges are considerable which is reflected in the re-categorisation of financial health to good. The budget model presents challenge yet supports the strategic objectives. Effective risk management frameworks preserve financial resilience and the approved finance strategy ensures that scarce resources are targeted to priorities.

The sector and indeed Halesowen College faces significant issues given the unions are requesting a 15.4% pay award, inflation is stubbornly high at above 10%, non-pay price increases (especially utilities, food and digital components) are sharp but the inflationary increase in grant funding is just 2.2%. This is an equation that cannot be solved locally or from slack in the budget model.