Education & Skills Funding Agency

Commentary requirements for college financial return July 2020

June 2020

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Introduction

Notwithstanding the uncertainties and additional pressures resulting from COVID-19 and implications for lockdown / social distancing, colleges will need to maintain effective financial control and monitoring.

The requirement for all college corporations to approve an annual budget remains in force and all colleges will therefore be working towards preparation and approval of budgets for 2020/21 by the end of July 2020.

Given the exceptional circumstances that have arisen since the arrival of the coronavirus pandemic, it is inevitable that earlier financial plans and projections submitted to ESFA in February 2020 are now likely to be substantially different. As a result, colleges are being asked to submit a simplified suite of information to ESFA by 31 July 2020 to reflect college's forecast out-turn for 2019/20 and final budget plans for 2020/21. This may play an important role in helping the agency to assess COVID-19 impacts and anticipate and respond to further financial pressures on the FE sector.

Alongside a simplified set of financial returns, colleges are asked to submit to ESFA a supporting commentary to their 2020/21 budget plan and cashflow forecast. This guidance sets out the minimum essential information that should be contained in the supporting commentary and provides an example (optional) format. In many cases, college finance directors will want to use or modify the report format they provide to the corporation. This is entirely reasonable and therefore the format for the commentary is advisory rather than prescriptive, noting that colleges may well want to include additional information to the minimum mandatory requirements outlined in this guidance, notably in respect of the outlook for 2021/22.

Essential information required

The core information required in financial commentary returns to ESFA is set out below under eight main headings (noting the order and format of presentation is not prescribed):

1. Context and Working Assumptions re COVID-19 Impacts
2. Short-term Financial Priorities and Objectives (2020/21)
3. Assessment of Solvency / Forecast Cash
4. Borrowing Requirements and Covenant Compliance (where applicable)
5. Key Budget Assumptions – Income and Expenditure
6. Capital Plans (including Asset Disposals where applicable)
7. Risks and Sensitivities
8. Overall Assessment of Financial Performance / Critical Variables

1. Context and Working Assumptions re COVID-19 impacts

The commentary should include a brief statement of the context and working assumptions underpinning the final budget and cashflow forecast for 2020/21 including:

- A status update on existing plans for major change to provision (e.g. as part of an existing financial recovery plan, in response to a SPA or an application for IoT)
- Any significant changes assumed to the "normal" delivery model for 2020/21 due to social distancing / COVID-19 (and how long these are assumed to last)
- A summary of the key COVID-19 related adjustments to assumed levels of participation by funding stream (i.e. 16-18 classroom based; Apprenticeships; AEB; HE; Advanced Learner Loans; ESF; Commercial (UK); International; Residential)
- A summary of any material COVID-related financial support or flexibilities assumed within the budget plan (for example furloughing, AEB reconciliation)
- Exceptional COVID-19 related expenditure
- Any significant contingencies or gaps within the budget plans or cashflow forecast that require further work / review / dialogue

2. Short-term Financial Priorities and Objectives (2020/21)

Reference to a limited range of key financial performance indicators that reflect the immediate challenges facing the college in 2020/21 and which will help governors and external agencies monitor and review in-year financial performance. Examples include:

- Achievement of the approved budget surplus / deficit
- Minimum levels of cash reserves / cash days in hand
- Securing of additional/renewed borrowing facilities / financial support [by a target

date]
- Compliance with loan covenants and/or renegotiation of revised covenants [by a target date]
- Timely completion of major capital projects/disposals

3. Assumption of Solvency / Forecast Cash

The commentary should provide sufficient narrative to explain key movements and assumptions within the cashflow forecast including:

- Key assumptions regarding the monthly profiling of income / capital receipts / capital expenditure / loan repayments / clawback
- Any material assumptions regarding acceleration or holding-back of payments due to suppliers or third parties particularly at year-end/March 2021
- Any significant movements between restricted and unrestricted reserves
- Levels of cash headroom at month-end before and after access to approved/confirmed overdraft/RCF facilities
- Plans or contingencies for access to alternative sources of cash [including if applicable] ESFA re-profiling or emergency financial support
- Summary of critical variables that may result in unmanageable cashflow pressures/insolvency

4. Borrowing Requirements and Covenant Compliance (where applicable)

Where colleges have bank loans/RCF/overdraft facilities or any other significant alternative loan finance in place or planned (including RF/EFS), summary information should be provided in the narrative as follows:

- All current and planned lending facilities with a clear indication of debt servicing costs / repayments due in 2020/21
- Confirmation of any termination / renegotiation / re-approval milestones before August 2021
- Details of any repayment holidays/deferrals agreed or assumed
- Current (i.e. 2019/20) and forecast compliance in 2020/21 with covenants / loan conditions
- Status of the college's relationship with its banks (including whether the college is in special measures) and an assessment of the likely response to any increased requirement for borrowing from the college
- Details of security over college assets held by any lender/third party

Where colleges are aware of a potential requirement to approach ESFA for grant re-profiling or emergency financial support, the narrative should set out the potential scenarios and timelines for this, making it clear whether this is a definite/likely/possible or worst-case.

5. Key Budget Assumptions – Income and Expenditure

Supporting narrative on key income lines referencing in particular:

- Any material difference between budgeted income and confirmed funding allocations for 2020/21
- Significant movements (growth or reductions) in 2020/21 compared with the forecast out-turn for 2019/20
- Explicit reference to any assumptions about in-year growth, reconciliation or recovery of grant income
- Summary information on the aggregate value of planned sub-contracted provision in 2020/21 compared with forecast actual values for 2019/20

Summary information on expenditure including:

- The timing, status and scale of any planned staff restructuring / redundancies that are included in the 2020/21 budget
- Budget provision for any pay awards indicating the cost of the award, the percentage rate increase and timing of decisions/implementation
- Other material pay movements e.g. a significant change in pension deficit payments or agency/sessional staff costs
- Significant non-pay movements (growth or reductions) in 2020/21 compared with the forecast out-turn for 2019/20
- Summary information on the aggregate costs of planned sub-contracted provision in 2020/21 compared with forecast actual values for 2019/20 and the value of provision delivered
- Any material exceptional costs included in the budget in particular related to COVID-19

The commentary should include a concise assessment of the forecast out-turn surplus/deficit for 2019/20 and the planned surplus/deficit for 2020/21. In addition, the commentary should confirm the education-specific EBITDA performance for both years.

6. Capital Plans (including Asset Disposals where applicable)

Commentary on each specific major capital project (i.e. > £1m) and status in terms of projected spend and completion in 2020/21.

Summary of any plans to defer/delay capital expenditure plans for operational reasons or to protect cash.

Confirmation of the status and value of all material sources of capital finance (including capital grants, capital receipts, and loans) along with any potentially significant risks to the timing and/or value of receipts from asset disposals (e.g. planning approvals).

7. Risks and Sensitivities

Alongside sensitivity testing (see section 3), colleges are requested to provide summary information on key financial risks and RAG ratings drawn from their approved risk register for 2020/21.

8. Overall Assessment of Financial Performance / Critical Variables

A concise assessment of the college's overall financial standing reflecting the forecast out-turn for 2019/20 and budget plans for 2020/21 including:

- The implications for the college as a going concern
- Key milestones and actions that are critical to maintaining operations and adequate levels of working capital
- Assessment of the college's financial health for 2019/20 (forecast out-turn) and 2020/21 based on a tool to be provided by ESFA/PMO according to the current published methodology for calculating financial health autoscores

Sensitivity Testing

As noted earlier the 2020/21 budget plans need to be approved by all college corporations, albeit in a context of the significant uncertainties resulting from COVID-19. Once you have your budget forecast in the FH Calculator and CF template, modelling scenarios should be straightforward given the simplicity of the templates. ESFA will consider a more automated approach for sensitivities in future collections.

The key assumptions used as the basis for preparing the budget could be subject to greater levels of potential financial implications than would normally be the case. Therefore, it is even more important for college corporations to consider a range of sensitivities to help understand the levels of financial resilience for their college.

Corporations may undertake sensitivity analysis, to model various scenarios or consider the impact of specific adverse events.

Information required

A commentary that Identifies the key income/cost areas to be sensitised drawn from the college risk register. Please also include any balance sheet risks such as capital or bank related risks.

Tab 3a in the financial model provides an input table for the sensitivity analysis to be modelled. Use the drop-down menus in columns B and C to select the item to be sensitised. Enter a brief description of the sensitivity and any mitigating actions that can be taken in column D. Enter the gross financial impact of the sensitivity in column E and any offsetting reduction achieved by mitigations in column F. Column G will calculate the net cash impact. Enter the revised financial health score and grade in column H.

Mitigating actions need to be clear and realistic to implement if required. The following list is not exhaustive, and corporations need to apply their own judgement, mitigating actions may include:

- additional in-year financial monitoring, with a clear process of escalating concerns.
- ensuring a flexible cost base.
- negotiating further cost savings.
- ceasing any loss-making activities.
- making better use of assets to generate income and/or savings.
- scaling back capital expenditure
- explore opportunities for refinancing if appropriate

Corporations should notify ESFA where these actions include a rationalisation of provision in any programme area or locality.

Optional sensitised cashflow forecast

To help assist corporations understand the approximate timing of when any major cash issues may arise colleges might want to apply their sensitivities to the monthly cashflow template.

Exemplar – Casterbridge College Commentary to the Financial Plan

1. Context and Working Assumptions re-COVID-19 Impacts

The College's recent financial performance has been good, with reasonable cash balances and a positive trading position. The current COVID-19 situation is likely to impact negatively on this position in the short term. Potential impacts, risks and sensitivities are discussed in this report, with an emphasis on cash and short-term solvency.

Current Year Impacts

For FY20, the College's financial out-turn has not been significantly impacted by the ongoing COVID-19 situation, due to the confirmed suspension of claw back on the Adult Budget for the year. The largest impact has been on forecast apprenticeship out-turn which has been reduced by £150k to year end. There are forecast reductions in income for Full Cost courses, Catering and Hair Salon income. There are also small forecast additional costs for IT consumables included in the forecast to the end of the year. The overall impact, however, is that the College is still forecasting a narrow 'Good' financial health grade for the year.

Future Impacts

The situation for FY21 is considerably more uncertain. It is likely that the macroeconomic picture will be one of recession in the short-term. This plan has been designed to consider the likelihood of decreases in income in affected areas, particularly in apprenticeship delivery, commercial income and fee income. A revised curriculum plan, taking account of estimated COVID-19-induced delivery reductions has been produced and forms the basis for income estimates where appropriate. Some reduction in cost has also been assumed to keep cost structures in place, but in general pay cost reductions are not assumed to be made in the same proportion as income is lost due to the difficulty of achieving savings in year at this stage on already lean delivery structures. These assumptions are laid out in detail in section 5.

It is also possible that some areas of delivery (for example, training for the unemployed) will increase and new funding income will be available to support this. This potential income opportunity has not been modelled in the budget, as it is still speculative at this stage. Equally, no changes in funding policy have been assumed.

If the forecast is achieved, impact on cash and solvency will be manageable, which is the overriding driver for the immediate financial objectives. However, there is a high risk that loan covenants are breached (section 4).

2. Short-term Financial Priorities and Objectives (2020/21)

The College's short-term financial priorities are:

I. Produce free cashflows at a level which sustain debt repayments and proposed capital expenditure
II. Comply with loan covenants and keep the bank informed of any possible breaches well in advance
III. Invest capital expenditure in remodelling classroom space and IT equipment to enhance the virtual learning experience and enable blended learning models
IV. Build flexibility into financial plans wherever possible to allow for mitigation in the event of downturns

The College's financial objectives align with the requirements of the loan covenants and financial health indicators:

1. Adjusted current ratio >1
2. EBITDA as a % of income > 6%
3. Debt: EBITDA <5
4. Borrowing to Income <40%
5. Cash from Operations > Financing cash flows (debt and interest repayments)

The forecast meets some, but not all, of these objectives. (Green = Met; Amber = Not Met):

	FY20	FY21
Adjusted current ratio >1	1.03	0.89
EBITDA as a % of income > 6%	8.67%	4.30%
Debt: EBITDA <5	4.18	8.75
Borrowing to Income < 40%	38.10%	37.64%
Cash from Ops>Financing cash flows	263%	126%

The objectives have not been altered to reflect the current challenging environment, since the worsened financial position is regarded as temporary and, ultimately, the College wishes to regain a Financial Health score of Good as soon as possible. Aiming consistently for these objectives in financial planning would support that goal.

3. Assessment of Solvency / Forecast Cash

Cash is forecast to out-turn at £2.8m in FY20. Despite the forecast deterioration in the trading position in the following year of £0.8m, cash is forecast to decrease by £0.5m to July 21. This will be achieved by controlling the operating position to reflect reduced income wherever possible, and tight management of capital expenditure.

The forecast in summary is:

Cash from Operations	905
Financing (loan repays and net interest)	-703
Capex	-700
Decrease in cash	-498

Average cash days in hand are forecast to be 34 days, with a low point of 11 days in hand (March). The limited headroom around March 2021 will need close monitoring.

It is proposed to approach the bank to see what support might be available to manage this risk. The possibility for an application for a Coronavirus Business Interruption Loan Scheme (CBILS) loan will be discussed, on the basis that the financial position has been demonstrably impacted by COVID-19. If this facility is not made available, it is proposed to explore options for a short-term loan repayment holiday, and to request an overdraft facility of up to £500k from January 2021 to mitigate the risk of a potential cash shortfall. Whilst the cash flow forecast does not indicate that this will be required it would provide additional contingency financing at a time of considerable uncertainty.

All of the options being explored with the bank will be reported to Governors and approved by them before proceeding with application.

4. Borrowing Requirements and Covenant Compliance

No additional long-term borrowing is forecast to be required during the year.

Covenant Compliance:

The budget generates the following results for loan covenants attached to the existing loan facility:

			Interest Cover			Debt: Assets		
	FY20	FY21	Calc	FY20	FY21	Calc	FY20	FY21
	4.18	8.75	EBIT: Interest cost (excluding FRS102)>=1.1	3.61	0.57	Total Debt: Total Assets<50%	37.04%	36.22%
	Met	Not Met		Met	Not Met		Met	Met

[Note that the bank uses Sector EBITDA (excluding FRS102 costs and DCG release) in covenant agreements.]

This forecast shows that two covenants will be breached in FY21 if the budgeted out-turn position is delivered. The improvement in EBITDA position required to meet all covenants is £680k. In the current economic climate, to seek to improve the budgeted out-turn by this value would present a risk that the budget is not achieved, leading to an unplanned breach later in the year.

An early dialogue with the bank will therefore be undertaken to discuss the forecast position, with a view to requesting a variation in covenant terms for the coming year. The College has a good relationship with its bankers and, given the current worldwide uncertainty on the economic picture, anticipates being able to secure an agreement. This is however not yet confirmed and regular updates on progress will be provided.

It is likely that, if a variation/waiver to covenant is indeed secured for next year, as expected, due to the current exceptional position, the bank will nevertheless wish to assure itself that the long-term financial planning of the College is fundamentally sound. No provision has been made in the forecast for external professional fees to validate the College's long-term financial planning on behalf of the bank, but it is possible that such an exercise may be requested. At the very least, it is expected that the bank will explore the long-term risk profile/cost of capital, as well as the short-term position, in discussions with the management team.

The forecast breach will be added to the risk register and monitored by the Governors and the SLT in year.

5. Key Budget Assumptions – Income and Expenditure

Income

Funding Body Grants

16-18 Classroom Income

- Lagged funded numbers unaffected by Covid19 to FY21. Forecast is therefore based on allocation for FY20 and FY21, including Element 2 High Needs funding for 68 students.

- If youth unemployment increases as is currently expected, it is possible that there will be a late increase in classroom-based 16-19 learners. If this increase is significant (>50 learners above funded profile), a case will be made for additional in year funding to support this provision. No increase is assumed in the budget.

Adult Budget (Sensitivity Analysis Scenario A)

- FY20 assume no claw back.

- FY21 from the curriculum plan, based on similar volume of delivery to FY20. Despite market volatility, it is possible that this line may in fact increase, with accompanying additional pay costs, due to potential unemployment levels, and retraining requirement, in the Autumn, but this has not been modelled for the sake of prudence. See Sensitivity Analysis Scenario A.

Apprenticeships (Sensitivity Analysis Scenario B)

- FY20 reduced by £150k (forecast) on budget due to lower activity in COVID-19 period

- FY21 apprenticeships (starts and programme delivery) revised curriculum plan assumes much lower starts in the autumn term, whether or not COVID-19 lockdowns are ongoing beyond September, due to significantly expected lower demand from employers in the forecast economic climate. This results in a 35% reduction in income from FY20 initially. See Sensitivity Analysis Scenario B.

Local Authority Grant-funding

- Element 3, High Needs Funding - Assume funding continues to be available from LA. Modelled at average rate from last year of £6500 per student. 68 x £6500 = £442k.

- Remainder of LA Grant funding is 14-16 funding and project grant funding carried over.

Other Funding Body Grants

- £225k included for OFS recurrent teaching grant funding (reduced by 10% from FY20).
- £300k included for various other grant lines.

Tuition Fees and Education Contracts (Sensitivity Analysis Scenario C)

This income stream is likely to be significantly affected by the economic impacts of Covid19. The forecast initially models:

- 10% reduction in HE fees modelled in revised curriculum plan, as universities continue to make unconditional offers and ramp up competition.
- 35% reduction in Apprenticeship fees, reflecting decreases in delivery.
- From the curriculum plan: 15% reduction in Full Cost provision: some increase may occur from increased demand for training to reskill, but this is forecast to be outweighed by reduced spending on education during a period of recession.

This is an area which is likely to need reviewing on a monthly basis for actual enrolment levels and trends.

Other Grants and Contracts

FY20 Includes £113k CJRS income claimed for 25 FTE furloughed staff. It is currently assumed that the claim continues until mid-June.

The College has not applied for supplier relief in FY20, on the basis that the forecast costs of delivering non levy apprenticeships do not exceed forecast non levy earnings income for the period to July, despite the reduction in income to the end of the year. This position will be reviewed should the scheme be extended or re-opened for September starts, but nothing has been assumed in this regard.

Other Income

FY20 has been impacted by COVID-19 to the value of 60k (see Exceptional Impact of COVID-19).

FY21 has been individually analysed by line and assessed for risk. General commercial income (e.g. catering) reductions are in the region of 15% to allow for overall decrease in student numbers.

Expenditure

In FY20, 25 FTE staff have been placed on furlough. These staff have been identified via analysis of activities which are not supported by government funding, such as restaurants, hair salons and full cost commercial courses. The College has continued to pay these staff at 100% of wages and is claiming 80% income from the government's national COVID-19 support scheme (CJRS). The income claimed for furlough costs is included in Other Grants and Contracts.

Staff costs for FY21 have been increased by £661k. This is planned to be delivered as follows:

Budgeted pay costs FY20	14,101
Pay award 1% + increments, subject to Board approval	262
Additional teaching costs related to Covid19 (estimate)	650
Additional enrolment period costs, contingency	25
Reduction, apprenticeship assessor hours (lost income = £525k)	-100
Reduction, fee provision delivery (50% achieved of 65% cost: income)	-114
Teaching support and admin cost reduction	-62
	14,762

It is difficult to estimate additional pay costs of the ongoing COVID-19 pandemic. The initial budgeted figure is based on an additional 13,000 teaching hours, which has been derived from the revised curriculum plan. In order to arrive at this total, some planned large classes have been split between a mixture of blended IT input, which can be studied at home or in LRCs, and classroom delivery. It is possible that a significant variation on this first estimate of £650k additional teaching cost may be incurred in deploying cover for sick or isolating staff, doubling up lessons to provide appropriate social distancing (depending on enrolment numbers), or employing additional IT support etc. Other sensitivities for teaching hours are modelled in Scenario D of the Sensitivity Analysis. There is also a risk that additional support staff costs will be incurred at the September enrolment period, both to facilitate safe enrolment processes and to ensure good IAG processes for students who may now be concerned about career paths such as Leisure & Tourism. It is currently envisaged that this can be managed by existing experienced IAG and admissions staff, but this will be kept under review as enrolment planning progresses and a £25k contingency for extra enrolment staffing costs has been created.

The College is not commencing significant T Level activity from September 2020, the majority of its planned T Level provision starting in September 2021. This being the case, the costs of managing the T Level employer industry placement programme in the coming year can be met from existing staffing structures which have already been created for this purpose, funded in part from industry placement capacity funding.

Non-Pay costs (Sensitivity Analysis Scenario E)

FY20 – Forecast costs have been increased on budget slightly, due to additional IT resources deployed at the end of the year. It has been assumed that exam costs are payable in full, regardless of how assessment takes place.

FY21 There is a target reduction, to reflect decreased income, in the total non-pay budget of £450k. This would bring non-pay down to 28% of income for the year (currently 29.5%), which is in line with the sector average and keeps cost structures controlled. This may prove challenging to achieve, given the pressures of setting up new delivery arrangements for blended learning and modelling classroom space for appropriate social distancing. There is provision in the capital budget for additional expenditure on IT equipment and software purchase, but there is likely to be an impact on revenue licensing costs. Some of the cost reduction will be achieved by reduced registration and assessment costs for modelled lower numbers of apprentices, HE students and other fee-paying students.

The proposed volume of subcontracted delivery continues unchanged using two partners, with payments due of £240k, included in Other Operating Expenses. This will generate a margin of 20% on £300k of AEB delivery.

Depreciation and Interest costs

Have been modelled based on forecasts of the rolling capital budget and loan account.

Exceptional impact of COVID-19

	£000	Year to 31 July 20	£000	Year to 31 July 21
Exceptional loss of income	210	£150k apprenticeships; £60k catering and salons	922	Apprenticeships £525k; HE £246k; Advanced Learner loans £32k; Full Cost fees £71k; Other income £48k
Exceptional expenditure staff costs	28	20% furloughed staff cost not covered by CJRS	675	£650k costs of social distancing and additional cover; £25k MIS/IT/Admission temp costs for enrolment period contingency
Exceptional expenditure non-pay costs	25	IT consumables for distance learning	120	Software licences and consumables, small equipment

Exemplar

Type	£000	Year to 31 July 20	£000	Year to 31 July 21
Exceptional expenditure capital	0	Managed within existing capex budget	300	Remodelling classrooms and additional IT hardware to support increased remote learning. Contingency for additional equipment - extra classroom space

All impacts are best estimates and are already included in the forecast on an accruals basis. Further potential impacts are modelled in the Sensitivity Analysis. These estimates will be revisited and updated early in the Autumn Term.

Balance Sheet

Capex has been modelled as per 6). No real changes in year-end debtor/creditor balances are anticipated. It is assumed in Income and Expenditure that the pension impact is similar in FY20 and FY21 for current service cost and net interest charge; these I&E charges have been added to the pension liability for FY21 but no forecast of any actuarial gains or losses has been made.

6. Capital Plans (Sensitivity Analysis Scenario F)

The forecast capital budget is as follows:

Type	Aug £009	Sep £000	Oct £000	Nov £000	Dec £000		May £000
Classroom remodelling	200						
Refurbishment	75						25
IT kit and software	150			50			
Other Equipment	50	150					
Total	475	150		50			25

- The refurbishment programme is the end of the estate refurbishment capital project carried over from FY20.
- There are no significant capital disposals planned for the year.

7. Sensitivity Analysis

An analysis, with potential mitigations, is set out in the financial model.

Exemplar

In general, risks to increased pay expenditure are the most impactive. Whilst one of the modelled sensitivities results in a forecast downgrade of financial health to Inadequate, none of them create a cash shortfall in the year.

TOP FIVE FINANCIAL RISKS Scores 1-5

		Likelihood	Impact	Score	RAG Rating	Controls
1	Costs of social distancing	4	4	16	Red	Monitor current public health advice. Full revision of the curriculum plan. Employ mixture of classroom and online delivery where appropriate.
2	Risks to income/participation	4	3	12	Red	Revised enrolment process planning. Set up of blended learning and distance options. Review of curriculum plan.
3	Covenant breach	5	2	10	Amber	Monthly monitoring and reforecast of breach or compliance. Reporting to SLT and Governors. Early discussion with bank
4	Cashflow pressure	2	5	10	Amber	Early Autumn full reforecast operating position. Weekly update of cash flow forecast to tie in with accounts. Reporting to SLT and governors
5	Inadequate Financial Health	2	4	8	Amber	Quarterly forecasting of FH out-turn.

8. Overall Assessment of Financial Performance / Critical Variables

This forecast seeks to present a realistic position in a time of national uncertainty when a recession is likely to occur in the near future. It takes account of potential loss of income and additional costs likely to be incurred as a result of responding to the COVID-19 pandemic using the best information currently available. The actual financial position arising in the Autumn Term will be impacted by: the ongoing macroeconomic and political response to COVID-19; actual enrolment numbers and patterns; whether additional funding is made available to support distance learning and social distancing measures; policy decisions on funding allocations and how far they remain responsive rather than set.

The following areas of flexibility may be utilised to flex the budget to accommodate actual enrolment and circumstances early in the autumn term: proportion of lessons delivered online rather in the classroom; any adjustment possible in capital expenditure for the remainder of the year; use of distance learning hours to maximise lecturer utilisation levels.

The critical variables which will drive the financial performance are: actual enrolment against plan in all areas and policy decisions regarding claw back if relevant; available teaching hours for managing social distancing and distance learning arrangements and ensuring critical areas such as workshops and small classrooms are safe; levels of staff cover required to manage absence or shielding arrangements.

The College enters the period of uncertainty in reasonably good financial health and has cash resources available. The forecast predicts Financial Health autoscore grading declines from Good to Requires Improvement, an assessment with which the College SLT and Corporation agree is reasonable in the short term. The ambition of the team would be to return to Good financial health as soon as possible; however, this may not be realistically achievable in the foreseeable future due to continuing economic uncertainty.

Looking ahead to FY22, it is likely that repercussions for the lower economic activity in the coming year will still be felt. In addition, there is the further uncertainty of the impact of Brexit on the economy in the short-term, and so the macroeconomic climate remains unpredictable, perhaps significantly so. However, on the assumption that the current health crisis is resolved by then, some of the extraordinary impacts of Covid19 modelled in this forecast should reverse.

Financial Planning Handbook 2020 appendix: summary requirements for supporting commentary

	2019 Handbook Requirement	Required for Simplified 2020 Return	Suggested amends / simplification
1	A summary of the corporation's strategic objectives	NO	Request summary finance KPI's for 2020/21 only
2	A description of how the financial plan and cash flow forecast are consistent with the corporation's strategic objectives	NO	n/a
3	Explanations for significant year-on-year movements in the statement of comprehensive income and balance sheet	YES	Emphasise the need to focus on material items only
4	Explanations for significant variances between the estimated outturn for the current year and the original budget	NO	Focus on statement of key assumptions including estimate of Covid19 impacts
5	A summary of how risks to cash flow insolvency have been managed and mitigated	YES	Detailed commentary required
6	The contribution made by all areas of material activity, including corporation subsidiaries and joint ventures, where applicable	NO	Consolidated data required that includes subsidiary companies
7	Sufficient and relevant evidence to support any request to moderate the financial health auto grade of 'inadequate'	YES	Colleges should use the financial health calculator to inform their self-assessment of financial health for 2019/20 & 2020/21 and complete the narrative box to explain any moderation of the auto score
8	Sensitivity analysis including the level of flex applied and/or specific revisions to assumptions; the corporation's assessment of the risk to financial viability and solvency; plans to mitigate risks should they arise	YES	Colleges should complete the separate tab on the financial health calculator

Financial planning checklist

	2019 Handbook Requirement	Required for Simplified 2020 Return	Suggested amends / simplification
1	Strategic and financial objectives		
1.1	Detailed financial objectives (see annex B)	YES	Summary finance KPIs for 2020/21 only
1.2	Corporation's assessment of performance against financial objectives, and any actions taken and/or planned	NO	
1.3	Strengths / weaknesses of the financial position and the extent to which it may be vulnerable to adverse variances, including those arising from its subsidiaries and joint ventures, where applicable	YES	Analysis to include an assessment of COVID-19 impacts cross referenced to the financial health calculator memorandum information on COVID-19
1.4	Risks and opportunities from key activities e.g. overseas ventures; restructuring; subcontracting	YES	Assessment of key financial risks drawn from 2020/21 risk register
1.5	Preventing cash flow and balance sheet insolvency	YES	Detailed commentary on cashflow and all lending required
2	Detailed assumptions		
2.1	Movements in funding, including student numbers and funding per student	YES	
2.2	Apprenticeship forecasts	YES	
2.3	Adult Education Budget performance, recovery, and devolution	YES	
2.4	16 to 19 demographics	NO	

	2019 Handbook Requirement	Required for Simplified 2020 Return	Suggested amends / simplification
2.5	Income from ESFA other than the main funding streams, including high needs funding	YES	
2.6	Income from other sources, including education contracts, tuition fees, European funds and commercial activities	YES	
2.7	Impact of efficiencies and cost reductions, such as estates, curriculum and operations rationalisation	YES	Scale and timing of any staff restructuring, campus reconfiguration / closures
2.8	Sound, costed curriculum plan	NO	
2.9	Effective estates strategy, including capital investment, sale of assets, long-term maintenance and routine maintenance costs	YES	Rationale and funding for major capital items and timing/scale of all asset disposals
2.10	Future staffing plans, pay awards, employers' national insurance contributions, and impact on staffing costs	YES	Timing and value of pay awards if applicable
2.11	Pension fund contributions, including LGPS and TPS, triennial scheme funding valuations, deficit recovery periods and repayments, future service rates and contributions, government support assumed	NO	
2.12	Incremental pay, and any gains resulting from staff losses at the high end of the scale being replaced by staff at the lower end	NO	
2.13	General inflation rate, plus any variation from the general	NO	

	2019 Handbook Requirement	Required for Simplified 2020 Return	Suggested amends / simplification
	inflation rate for specific items of income or expenditure		
2.14	Interest rates	NO	
2.15	Sub-contractor costs and/or any franchising arrangements	YES	Full disclosure of the value of sub-contracted provision and associated costs
2.16	Transfers to and from restricted reserves	YES	Particularly use of any restricted cash /reserves
3.	Financial health self-assessment		
3.1	Rationale behind the financial health self-assessment, with reasons for any moderation from the auto grade with reference to the moderation criteria	YES	Colleges should use the financial health calculator to inform their self-assessment of financial health for 2019/20 & 2020/21 and complete the narrative box to explain any moderation of the auto score
4.	Primary financial statements		
	Explanation for significant year-on-year movements	YES	Emphasise the need to focus on material items only
	Explanation for significant variances between the estimated outturn for the current year and the original budget	YES	Emphasise the need to focus on material items only
5	Income, expenditure, cash flow forecast, assets and liabilities		
5.1	Detail on the sources of grant income and the underlying assumptions of learner numbers, including any forecast growth	YES	

	2019 Handbook Requirement	Required for Simplified 2020 Return	Suggested amends / simplification
5.2	The nature of any repayment of European Social Funding	YES	
5.3	Sources of income from franchising provision	NO	
5.4	Detail of all income-generating activities and the contribution made net of expenditure	NO	
5.5	Provisions included in expenditure	YES	Emphasise the need to focus on material items only
5.6	Options appraisals and significant asset purchases and disposals	NO	
5.7	Explanation for significant year-on-year movements	NO	
5.8	Cash flow and financial planning templates materially reconcile, and key differences explained	YES	Cash balances at 31 July 2020 and 31 July 2021 on cashflow template and FH calculator should match
5.9	Details of loans, including consents and covenants	YES	
5.10	Assessment of ability to repay borrowings as they fall due	YES	
6	Sensitivity analysis		
6.1	Detail of the sensitivity analysis undertaken and outcomes	YES	
6.2	Detail of plans to mitigate risks should they arise	YES	

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