

 **Imperial College Union**

**Finance and Risk Committee**

**5 February 2020**

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| **AGENDA ITEM NO.** | Item 09 |
| **TITLE** | Forecast and Half Year Review |
| **AUTHOR** | Malcolm Martin |
| **EXECUTIVE SUMMARY** | The Strategic Management Group in January 2020 led a detailed review of the current financial projections to 31 July 2020. The impact of the loss of food services, the need for additional resources to address the Health and Safety concerns and the need for additional resources to address some workloads has led to a projected downturn in performance by £294k. This paper presents the highlights from the SMG review and provides an explanation for the downturn. This paper does not provide the medium-term financial solutions needed at this time.  |
| **PURPOSE** | To provide an operating year end prediction and comments about the financial health of the Union.  |
| **DECISION/ACTION REQUIRED** | For discussion  |

**Executive Summary**

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|  |  |  |  |
| Summary  | Forecast 19/20 | Budget19/20 | Var. |
|  | £'000's | £'000's | £'000's |
|  |  |  |  |
| Income | 5,401 | 5,719 | (318) |
| Cost of Goods | (1,351) | (1,440) | 89 |
| Gross Profit  | 4,051 | 4,279 | (228) |
|  | 75% | 75% |   |
| Staff Costs |   |   |   |
| Permanent  | (2,737) | (2,863) | 126 |
| Temporary  | (661) | (583) | (79) |
|  | (3,398) | (3,446) | 48 |
| Other Direct Costs | (873) | (759) | (114) |
| Depreciation | (264) | (264) | (0) |
|  |   |   |   |
|  |   |   |   |
| Total Exp. | (4,535) | (4,469) | (66) |
|  |   |   |   |
| Net Surplus/(deficit) | (484) | (190) | (294) |
|  |  |  |  |

The above table show a projected forecast of £(484,000) being approximately £294,000 below the original budget. Gross profit is under budget by £228k (5.3%) and expenditure is over budget by £66k (1.5%). Both income and expenditure are below expectations.

Having reviewed the individual financial submissions from the Strategic Management Group supported by the respective budget holders, the main reasons for the variance from budget are:

* The loss of income from commercial services because of the closure of the 568 kitchen due to environmental and electrical health and safety challenges
* The delay in the commencement of the new food offer from H Bar due to staff resourcing and the delay in College space allocation
* The unanticipated additional management costs (lieu of notice and severance costs)
* The additional staff resource in key support areas to address work load concerns
* Additional resources set aside to address the health and safety concerns

The 568 kitchens have now reopened, however given the loss of footfall momentum it will be difficult to achieve the original trajectory of anticipated income during the remaining two terms as captured in the original budget. The forecast is predicting a gross profit short fall of £151K (12%) from commercial hospitality operations out of Beit £93k of which has already taken place. Steps have been taken to reduce staffing and other direct costs while services have been closed, however the key issue is the loss of projected income.

The H Bar food offer is expected to start in February 2020 having previously expected to start in term 1. However, this offer will be at a reduced level than what was envisaged. The forecast is predicting a gross profit shortfall of £92k (40%). The loss of food services continues to effect both wet and dry sales.

While some unanticipated management costs have been incurred, an additional £28k has been set aside to support the Finance team during a period of transition and staff turnover while more efficient ways of working are being explored. It is anticipated that the move to cashless processing in the commercial outlets will significantly ease the work pressures in both Finance and Bar teams.

A Health and Safety consultant practitioner has already been engaged, it is anticipated that additional permanent resources will be recruited to assist with the implementation of the various audit recommendation and monitor there effective working. £45k of personnel cost has been set aside in additional to the £16k capital cost that has so far been identified as Union responsibility.

**Risks**

The renovation works currently planned for Union Concert Hall over Easter, if they were to overrun would jeopardise the income received during graduation for the hire of the spaces. This is estimated to be approx. £24k. The risk escalates when you consider that this has been a long-standing arrangement, and if accommodation is successfully sourced elsewhere the Union might not regain this opportunity. This has a knock-on effect on hospitality and Retail income.

The Summer Ball budget has a modest projection of a £2k loss with an expenditure contingency. However, anticipated ticket sale income has increased from £60k achieved in 2019 to £100k. The increased is reflected in higher ticket prices and not increased capacity. The budget expects full attendance at 1,700 which is the sell-out level achieved last year. It is anticipated that under the leadership of the Deputy President Finance and Services, coupled with an increased offer promising a better experience, there will be greater student participation.

Marketing (Sales and Sponsorship) has included a stretch target of £20k for the final month. They are looking to exploit new areas of activity at this traditionally quieter time of year.

Recruitment and retention continues to be a challenge for the Union as frontline services of Student Experience and Student Voice has staff vacancies. Also, there are also a number of vacancies in commercial teams including Head Chef and Events and Conferences Manager. The arrival of a new Systems Manager (3 February) will help ease the pressures in the Systems Team and bring much needed resource to help with the management of key systems (EPOS) and facilitate further development (e-commence solutions).

The new H Bar food service is untested and will commence on a limited offer basis. A full year gross profit contribution of £69k was anticipated. It is now expected that this will be in the region of £4k.

**Opportunities**

Student Activities are taking the opportunity to invest £11k to improve several student services, particularly room booking. The forecast is predicting a positive saving of £19k overall notwithstanding the investment. It is anticipated, the improvements in the room booking process will have a significant positive impact.

An investment provision of £4k has been set aside to engage James Medler in February and March to document key processes and provide a clear basis for further longer-term process improvement.

The Retail ShopExtra continues to outperform budget expectation with a £48k (9%) growth in income, £21k (11%) growth in gross profit. The new lines including “food to go” and coffee sales have both been successful. The main shop on the other hand has experienced a downturn in several of its quality clothing lines as a new tariff was introduced but did not have at the desired impact.

There is the opportunity to review the way capital investments are funded. At present the current financial structure allows for capital investment of approx. £300k p.a. This is captured in the appendix 1 – impact on reserves. It is expected that at least 3 mini buses can be purchased at an approx. cost of £100k leaving £200k for commercial investment or investment in projects with a positive net present value. There is an opportunity to consider where this resource could be best placed to get a good return on investment. Further work is needed to develop capital investment options. Investment in front line student services / resources should be funded directly by College, e.g. replacement equipment for West Basement media and audio services, flooring and building refurbishment, etc..

**Health and Safety Resource**

The forecast includes an investment of £45k in health and safety. £13k has been set aside for Big City Consultants who have been instrumental in supporting commercial services team enhance the safety management systems and provide essential training to kitchen staff. 5 days per month has been allocated to support the Student Activities team review and evaluate their approach to safety management.

The forecast also anticipates the recruitment of permanent resources to address the ongoing essential work that is needed in this area.

**Impact on Reserves**

The original July-2019 budget presentation anticipated:

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| --- | --- | --- |
|  | Original FrameworkJuly 2019 | Forecast February 2020 |
| Outturn | Investment of £198k | £(484k)  |
| Projected Reserves31 July 2020 | £915k  | £621k  |
| Capital Expenditure | £39k  | £55k |
| Cash Investment | £1.5m | £1.5m |
|  |  |  |

Appendix 1 shows a revised 10-year projection. More detailed work is needed to revise the originally assumptions especially the development of other income streams.

**Next Steps**

Develop a medium-term financial plan to restore the stability of the Union’s finances – March 2020

Identify and implement the anticipated work efficiency in income processing – July 2020

Appendix 1 - Impact on Reserves

Reserves Projections:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Opening Balance | Capital Purchases | Depreciation | Surplus | Closing Reserves |
|  | £'000's | £'000's | £'000's | £'000's | £'000's |
|  |  |  |  |  |  |
| 2019/20 | 897 | (55) | 264 | (485) | 621 |
| 2020/21 | 621 | (329) | 269 | (239) | 323 |
| 2021/22 | 323 | (304) | 283 | (103) | 198 |
| 2022/23 | 198 | (283) | 295 | 45 | 255 |
| 2023/24 | 255 | (338) | 297 | 84 | 297 |
| 2024/25 | 297 | (370) | 299 | 124 | 350 |
| 2025/26 | 350 | (235) | 301 | 239 | 655 |
| 2026/27 | 655 | (893) | 303 | 285 | 350 |
| 2027/28 | 350 | (574) | 306 | 333 | 415 |
| 2028/29 | 415 | (422) | 308 | 463 | 764 |