

**Imperial College Union
Board of Trustees / 24 February 2021**

Stage Four Budget - 2020/21 6 Month Reforecast

Author(s): Jayne Hufford (Head of Finance – Outsourced)
Tom Flynn (Managing Director)
Rob Scully (Director of Finance & Resources)

Purpose: To consider the reasonable worst case forecast of the year end position along with the main assumptions and risks.

Decision(s): To approve the ‘Stage Four’ budget for the Union.

1. Executive Summary

The uncertainty of the COVID-19 pandemic has required the 2020/21 annual budgeting process for the Union to be undertaken via a four-stage process.

Stage	Summary	Dates	Description
One	Forecasting	May – Jun 2020	Several scenarios were generated based on likely restrictions to our operating model. The financial implications were then costed and understood, all showing significant deficits if no further actions were taken by the Union.
Two	Interim budget and cost reduction plan	Jul 2020	An interim break-even budget (in cash terms) was produced based on a number of principles that required significant cost reductions across the organisation – but largely focused within our permanent staff and commercial outlets. This required us to make significant reductions in our core services.
Three	Final budget	Oct 2020	A final budget was produced and approved by the Board based on the outcome of the staffing reorganisation and wider cost reduction process.
Four	Revised budget	Feb 2021	The budget will be revised based on 6 months of operation and likely end of year position given the renewed COVID-19 outlook in the new year.

In October, Board approved the final budget which represented stage three of the process. This paper addresses the fourth and final stage i.e., the revised budget based on the past 5/6 months of operation. The forecast discussed in this paper will form the basis of the revised budget to be used for the rest of the financial year.

2020/21 has been an unpredictable and challenging year and unfortunately there is still considerable uncertainty in the world. The forecast has, therefore, been prepared on a reasonable worst-case basis, with anything else being treated as a bonus.

2. 2020/21 Forecast Outturn

At the start of the year, we budgeted a £32k operating surplus. Our revised year end forecast outturn is an £18k operating deficit. This represents a £50k adverse variance from budget. The detailed forecast is included in Appendix 1.

Restructuring costs of £162k were also included in the budget. The restructure is now complete and therefore, the YTD underspend of £8k will carry through to the year end.

The forecasted net reduction on free reserves will be £172k, some £42k worse than budgeted. Depreciation is forecast to be under budget by £17k but as this is covered by specific restricted and designated reserves, there is no impact on the free reserves.

3. Key Assumptions

The whole reforecast is based on assumptions, but the following are the key assumptions:

- i. Bars and shops remain closed for the rest of the academic year.
- ii. Minimal on campus activity for the rest of the academic year with online delivery of core services where possible.
- iii. Utilisation of the Government's Coronavirus Job Retention Scheme (CJRS) until 30th April 2021 or later if the scheme is extended.
- iv. Saving on CSP grants of £53k.
- v. No significant capital expenditure for the rest of the academic year.

4. Significant Forecast Variances

4.1 Income

Income is forecast to be £257k lower than budget. The most significant contributing factors are the adverse variances on retail and the bars, £268k and £60k, respectively. One shop and bar have opened when possible, adapting their offering accordingly, but ongoing restrictions have meant that both have been shut since early December with only the online shop trading. The forecast assumes that the shops and bars remain closed until the end of the academic year, however, if restrictions are lifted earlier, and it's safe and profitable to open, trading will resume. Whilst shop income was budgeted for the full year, albeit at approximately half of 2019/20 levels, bars income was only budgeted for term 1.

There are other areas of income which have been adversely affected by the pandemic. Minibus income is forecast to be £37k adverse to budget. Associate and life memberships are forecast to be £18k adverse to budget although efforts will be made in the rest of the year to attract new members. Interest income is forecast to be £10k adverse to budget but fortunately, this has been offset by the release of the investment revaluation reserve £22k on the sale of the Rathbones investments earlier in the year.

The adverse variances on income are being partially offset by the CJRS grant income for furloughed hours. Management have taken a flexible but proactive approach to furlough for both commercial and other staff. The forecast assumes a total claim of £213k against a budget of £93k based on the three months to October 2020 when the scheme was originally due to end. Therefore, any income from November onwards was not budgeted and therefore, forms part of the variance on 'Other Income'.

All CJRS income has been posted to the Leadership budget. However, £54k relates to retail staff and £12k relates to bar staff. These savings should be netted off the reported deficits for these areas bringing the adjusted deficits down to £214k for retail and £48k for the bars.

2.2 Expenditure

Expenditure is forecast to be £206k under budget with favourable variances on all but one cost centre.

Staff costs are forecast to underspend by around £50k due to recruitment gaps and/or increment savings on the following posts:

- i. Representation & Advice Manager £10k
- ii. Representation Coordinator £8k
- iii. Director of Finance & Resources £11k
- iv. Web Developer £11k

The forecast includes a further £3k for the extension of the interim Head of Finance role to complete the 2019/20 audit work and payroll reconciliations. No allowance has been made for any other payroll changes.

Operational costs are forecast to be £156k underspent. The most significant variances are:

- i. £53k underspend on CSP grant allocations
- ii. £30k saving on the general contingency after charging known unbudgeted costs
- iii. £17k underspend on minibus hire which offsets part of the variance on minibus income
- iv. £11k underspend on Felix printing due to the forced switch to online delivery
- v. £20k bad debt recovery on previously written off debts

5. Risk

The staffing restructure and the decision to only budget bar income for the first term, have significantly reduced the budget risk this year but some risk is inevitable. These are the most significant:

5.1 VAT

HMRC are currently challenging the Union's VAT treatment of catering sales to students. If they decide that the use of the education exemption is incorrect, there could be a significant VAT liability. Many other student unions across the country are facing the same issue so NUS are co-ordinating a sector wide challenge. The forecast includes a £5k contribution to the NUS challenge fund but does not include any contingency for backdated VAT.

5.2 Balance Sheet 'Fallout'

Weaknesses in financial management over the past few years have resulted in poor controls particularly the absence of balance sheet reconciliations. Many of the issues have already been identified and where possible, provisions have been built into the 2019/20 accounts. However, there is a lot of work involved in resolving these issues and rebuilding and improving the control framework. It may take a further year or two before we can be confident that all issues have been addressed fully. Therefore, there is a risk of further impact on the I&E through write-offs and additional provisions.

5.3 Payroll Reconciliation

Since the introduction of the CJRS, the payroll information that the Union receives from College has been incomplete. As a result, payroll information used in the management accounts has been based on estimated figures only. Whilst this would be very straightforward in a normal year, the complication of the CJRS claims for furloughed hours make the figures more difficult to estimate. The Union and College are currently working together to resolve the issue and reconcile the payroll charges. There is a risk that the actual figures could be significantly different from those estimated.