Ref. 07-22

DATE:	8 February 2022
TITLE OF REPORT:	Financial Strategy and Cash Management
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PURPOSE:	To provide background to cash holding and propose strategy for investment of the funds
KEY RECOMMENDATIONS/ DECISIONS:	The SLT is asked to: • Note the free funds available to the College and how they have been generated; • Note and recommend the approval of the strategic funding proposal
RISK	• That investment in the fabric of the building is not undertaken in good time; • That funds for curriculum development are not identified and ring-fenced, leading to a curriculum not aligned to need • That funds are not utilised in line with SFC / SG requirements and may be clawed back •
RELEVANT STRATEGIC AIM:	• Successful Students • The Highest Quality Education and Support • Sustainable Behaviours
SUMMARY OF REPORT:	• The College has adequate resources to set up and support a future strategic financial planning fund. • That the College set in place procedures to assess and approve funding bids at an appropriate level. • College management refer the proposal to the Finance and Resources Committee for approval. • The Fund balance is reviewed quarterly with deposits or withdrawals as cash-holding and investment requirements determine.

1. INTRODUCTION

The College currently carries a higher than usual cash balance. One of the restrictions of the sector is that we should, to all intents and purposes, match our annual spend to income and only carry working capital plus any known liabilities (e.g., for large projects where costs spill into a following financial period). Our monthly spend is approximately £1.5 million and, as we receive a drawdown from the Funding Council each month, an ideal cash holding would be £1 million, excluding any one-off liabilities.

2. THE CURRENT CASH RESERVES POSITION

The College's cash balances over the past three years were:

- 31st July 2018 £600k
- 31st July 2019 £1,500k
- 31st July 2020 £1,750k
- 31st March 2021 £2,800k
- 31st July 2021 £3,450k (this included approx. £250k re a backlog maintenance project)

This balance has been built up due to three main reasons:

- The College has consistently produced annual operating surpluses, resulting in more cash being received than spent;
- SFC has provided capital funding which has displaced what the College had planned to send on major infrastructure projects;
- Annually, the College's accounts include a net depreciation charge which is a mechanism to allow it to build a reserve for asset replacement.

The second and third items have combined to produce the larger balance than would normally be the case for the College. SFC now also allows net depreciation to be used for other purposes, giving colleges a flexibility not available to it previously.

3. CASH RESERVES AVAILABLE AT FEBRUARY 2022

On the basis of the balance at 31st July 2021 (£3,450k) less the ring-fenced sum for ongoing capital works (£250k), the College had working capital of approximately £3,200k. It is assumed that the "free" cash reserves will not vary from this figure as at 31st July 2022.

4. FACTORS WHICH MAY AFFECT THE CASH RESERVES BALANCE IN 2021/22

The College has some known issues which could affect the cash reserves:

- If the College reaches its core plus ESF credit target, this generally results in it breaking even for the year. Any shortfall in core income resulting from not reaching its credit target could result in a deficit of that figure.
- There is a potential shortfall in funded credit activity in the year 2021/22 of approximately 1,770 credits, approximately 3.6% of its total core plus ESF credit activity target. This is approximately If this gap in activity is not closed, the College may be subject to a clawback from SFC. The average sum received per credit is £290 and, based on this figure, the College has a potential shortfall in income of (1,770 * £290) approximately £515,000. The College should retain this sum as a contingency.
- The shortfall in credit activity may also affect the amount of fee income that the College could expect. Taking, as an estimate, the 3.6% shortfall in credit activity and applying this to the Budget fees income figure of £2,300k, there is a potential shortfall in income of £83k.
- The College has made assumptions on staffing and the September 2021 pay award. It is also making assumptions on the unfunded sum that it may be exposed to in respect of the support staff Job Evaluation project. The additional courses to be run in 2022 may also increase staffing costs, and the College also has several agency staff engaged over and above what was included in the staffing budget. It would be conservative to allow an additional £250k in the payroll projection to July 2022.
- The College hasn't spent its ring-fenced capital allocation as yet as it has been concentrating its management resource into the completion of the roof repair. However, an issue with the cladding may utilise the full allocation.
- An investment of approx. £100k is being made in branding and the development of the College website. This is outwith the recurrent Marketing budget.

Taking into account the above, the restated cash reserves figure for consideration is:

	£ 000
Cash Reserves at 31st July 2021	3,200
Potential shortfall in activity funding	(515)
Potential shortfall in fee income	(83)
Potential additional staffing costs	(250)
Investment in Marketing outwith revenue budget	(100)
Restated cash reserves figure	2,252
Required working capital	1,000
Cash reserves available to the College for investment	1,252

5. ESTABLISHMENT OF A STRATEGIC INVESTMENT FUND

The arrangements made during the COVID pandemic and the consideration of the current and future needs of staff and students, in terms of curriculum development, estates requirements and staffing should feed into the College's strategic thinking for the current year and beyond.

To fund the developments that may flow from this strategic review, the College has the opportunity to utilise its cash reserves to best use. Setting a fund of £1,000,000 would, under current circumstances, be entirely appropriate and affordable.

Suggestions as to the best use of the funds will have to be determined after a thorough review of strategic requirements but, as a starting point, the following could be considered:

Backlog maintenance fund

The main College building is now 15 years old, and it has been identified that some of the major plant and machinery does require replacement or refurbishment. An example is the roof, on which £1.2 million has been spent over the past two years when it had been anticipated that costs would have been one third of this. The College has benefitted from ring-fenced SFC funding to address estates issues, and this has been invaluable in addressing these significant costs of roof repairs. This has, though, absorbed funds that could have been applied to other backlog issues. SFC's backlog maintenance funding for the College is only £30k in 2021/22 and there is no commitment to establish another fund, so the College must look to fund any major costs itself.

Curriculum Development Fund

The pandemic has changed the teaching dynamic and the requirements of employers. The College has to identify any changes to its mix of curriculum and a fund should be set up to support this. This would incorporate any staff realignment costs; this would be allied to the Restructuring Fund.

Restructuring Fund

Wider than any staffing realignment that may flow from the curriculum development, the College should review what is requires in terms of appropriate staffing for the future both re academic and support areas and fund those changes.

Estates Development Fund

Allied to the Curriculum Development Fund, the College should assess its estates provision in terms of whether it is fit for purpose and where improvement would add to the overall experience of both staff and students. Classroom layout, major equipment and the provision of social spaces, for example, may require to be invested in.

6. MANAGEMENT OF THE STRATEGIC INVESTMENT FUND

The Fund would be managed by the Funding and Finance Group, who would report to the Finance and Resources Committee quarterly.

After the initial investment, the Fund balance would be monitored on a monthly basis by the Funding and Finance Group. Should it be necessary, cash could be added to, or withdrawn from, the Fund as deemed necessary, and circumstances dictated. For example, if the College closed the activity gap in the current year, the Fund could be augmented.

The Group should be aiming to maintain the Fund at a level that allied to the strategic needs of the College.

Applications for investment should be submitted by budget holders for consideration by the Senior Leadership Team. These would be considered by the Team in conjunction with other strategic initiatives and this process would allow all SLT members to participate in investment decisions.

Requirements would dictate the period over which investment could be spread but, initially, this could be over the two financial years 2021/22 and 2022/23.