



**Imperial College Union  
Board of Trustees**

Wednesday 20 February 2019

<b>AGENDA ITEM NO.</b>	Item 11
<b>TITLE</b>	Reforecast 2018/2019
<b>AUTHOR</b>	Malcolm Martin
<b>EXECUTIVE SUMMARY</b>	<p>A detailed forecast paper was presented and discussed at Finance and Risk Committee which highlighted a projected shortfall of £365k. This is unacceptable.</p> <p>The management accounts for January 2019 show an adverse outturn beyond that predicted by the forecast by over £61k, mainly due to unanticipated back dated cost of sale invoices processed in January to the value of £55k.</p> <p>The background to why we are here is outlined below together with the steps that have been taken so far.</p>
<b>PURPOSE</b>	To give a clear signal that the financial position of the Union is not sustainable and significant corrective actions are needed.
<b>DECISION/ACTION REQUIRED</b>	For discussion

**Background:**

The result of the reforecasting exercise undertaken by management in January was presented to the Finance and Risk Committee at its meeting on 30 January. The result projected that by the end of the financial year, the budget target would not be achieved and that an adverse variance of £365k was the likely outcome.

At the meeting, a clear message was given that this potential outcome is totally unacceptable to the Leadership Team including the Managing Director and Head of Finance and Resources. This projected variance to budget is not sustainable and a step change is needed.

**Why are we here?**

We have encountered a significant period of staff challenges, including periods of sickness where duplicate costs have been incurred as key roles were back filled in order to provide a continuity of service and where severance costs have been incurred in line with HR policy provisions. This centres on the roles of Head of Student Experience, Operations Manager and the Head of Catering. The exceptional costs incurred of £85k are considered one-off and would not be expected in the normal course of activities.

There has been a decline in alcohol sales during the first half of the year across all three bars. Coupled with an increase in costs of supplies and a subsequent fall in gross profit (GP) the forecast projected a GP shortfall of £120k in 568 & Metric, with a £21k shortfall in H Bar and £19k in Reynolds. The total shortfall on wet gross profit is £160k.

Agency staff costs in 568, Union Bar and Metric are significantly over budget as attempts have been made to fill vacant shifts in the kitchen and bars in order to maintain a base level of customer service. Agency costs are being incurred at a premium to both student and permanent staff rates and are therefore not the most cost effective way of engaging labour. The forecast projects that £204,328 is projected to be spent in this area. The potential saving to be gained by the reduction in agency is complex to compute in a short space of time. Even a 20% conservative assumption would yield a saving of over £40k, although all shifts would not be covered by student staff.

The forecast includes staffing investments in the areas of Systems and Commercial services administration which together come to £50k.

The last main area of challenge lays in sponsorship and advertising expectations which are projected to be below budget by £50k.

**What are we doing about it?**

The Leadership team met and reflected on the current financial position. Some principles were identified to guide the essential decisions that need to be made to reduce the impact as the potential outturn as this is unacceptable. The principles included considerations for the impact on students, impact on staff, sustainability over the medium term and maintaining our core services.

The initial rounds of discussions have identified c.£50k as outlined below:

1. Stop the purchase of 2 new minibuses - £13k
2. Don't hire Training & Dev Manager - £17k
3. Stop Breakfasts - £7k
4. Pause Building refresh - £5k

5. Remove the overnight stay element from April away days – Hotel / conf centre in central London saves £1.5k
6. Not holding External Varsity Saves £3k

Even though the discussions have not been concluded, it is anticipated that further cost saving opportunities could be identified and a further £50k achieved making a total of £100k saving from the projected shortfall.

Consideration needs to be carefully given to the impact of each measure.

### **What are the longer term implications?**

The financial model of the Union is broken. An initial high level projection over the next 10 years shows costs growing faster than our income as wet sales are in decline. While the Commercial strategy has outlined the need to shift our focus to food, the overall financial contribution will be eroded as wet sales has a significantly higher margin. Our spaces are in desperate need of refresh and the capital refurbishment process is unlikely to yield significant change within the next 18 months to 2 years.

Salary cost inflation over the medium term are raising faster than the block grant and contribution from our commercial outlets. Recent increases in the national living wage has brought inflationary pressures on our temporary staff costs.

### **Next steps**

These are the next steps:

1. Continue the detailed review of the forecast assumptions with a view to making the tough decisions to reduce the projected overturn by a further £50k over and above what has already been accomplished (*Follow-up meeting planned for 15 February*)
2. Develop the longer term financial model to help identify the longer terms risk areas so that suitable and sustainable long term measures can be initiated (*complete initial modelling within the next weeks, then hold further Leadership discussions*)
3. Focus on developing and implementing new income initiatives
4. Identify alternative funding for capital projects