



**Imperial College Union Board of Trustees  
2020/21 Budget  
8 July 2020**

<b>AGENDA ITEM NO.</b>	11
<b>TITLE</b>	2020/21 Budget
<b>AUTHOR</b>	Jayne Hufford
<b>EXECUTIVE SUMMARY</b>	<p>ICU have been through many changes over the past 6 months and are facing an extremely challenging financial position. The 2020/21 budget process was always going to be hard due to the immediate need to make significant operational savings. With the onset of Covid-19 in March, the position worsened and now we are entering an unprecedented position as we try to plan for an uncertain year ahead.</p> <p>A decision was taken at F&amp;R Committee in June to re-base the budget, essentially creating a new 'norm'. This decision, not only allows the Union to address the immediate financial position but it will also support the transition to a new, more flexible operating model which less reliance on commercial income.</p> <p>The proposed budget is a deficit of £200k based on net income of £2.1m.</p>
<b>PURPOSE</b>	This paper reports on the budget work we have done to date and details the proposed re-based budget for 2020/21.
<b>DECISION / ACTION REQUIRED</b>	For approval

## **1. Introduction**

The Union entered budget planning during a period of considerable change and financial instability caused by poor performance and the closure of the commercial outlets earlier in the year. With the onset of Covid-19 the financial situation deteriorated further as commercial outlets were forced to close. Current projections estimate a year end deficit of approximately £600k for 2019/20. This will reduce the general unrestricted reserves at the year end to around £300k.

Prior to Covid-19 the plan was to create a business as usual (BAU) budget based on a surplus of £45k. It soon became apparent that this approach was no longer appropriate so, with F&R approval we carried out a re-basing exercise. At the core of this is the proposed staffing reorganisation which proposes significant redundancies and a £1.1m saving on staff costs, principally in commercial services. The details of this reorganisation are contained in a separate paper, prepared by the interim MD and are, therefore, not included in this paper.

It is important to point out that the budget process was significantly hampered by poor planning and communication which resulted in an inconsistent and overly complex approach in some service areas. As a result, a significant amount of work has been required to provide an accurate consolidated set of figures.

## **2. The Budget Process**

### **Baseline Budget**

In April, the Union prepared a high-level BAU budget based on a targeted surplus of £45k. To achieve this surplus the Union submitted a block grant request of £1,941,770 to the College. This represented an increase of £56k or 3% on the 2019/20 grant of £1,885,213. The college has not yet confirmed the level of grant, but early indications are that there will be no pay award in 2020/21 and that the block grant request will be adjusted down accordingly.

Despite comprehensive scrutiny, we could only achieve a deficit budget of £68k, some £113k short of the target.

### **Scenario Planning**

Budget holders were then tasked with preparing three variation budgets based on the following three possible scenarios.

- SCENARIO A: Campus reopens for teaching and learning in October for the new academic year. There are ongoing social distancing restrictions in place including 2m distancing and limitations on gatherings of over 50 people. The Union building is open but with a focused plan to ensure the safety of staff and social distancing compliance. Bars remain closed across campus until January, but retail outlets can open with limitations on the number of people that can enter. Student activities / groups are able to take place as long as it is possible to do so in line with government guidance.

- SCENARIO B: Campus remains closed until December 2020 and reopens for teaching and learning for term two in January 2021. The Union building remains closed until January and all services and opportunities are delivered remotely. Our commercial operations reopen in January albeit with some minor ongoing social distancing measures / safety protections i.e. limited numbers in venues etc.
- SCENARIO C: Campus remains closed until December 2020 and reopens for teaching and learning for term two in January 2021. The Union building remains closed until January and all services and opportunities are delivered remotely. Our retail outlets are able to reopen in January with strict social distancing / safety measures, but bars, catering and events cannot be resumed within this financial year.

The scenarios projected deficits of £873k, £1.1m and £1.3m, respectively. Under the worst-case deficit, i.e. bars closed all year and retail operating at around 30% of BAU, the deficit on the commercial areas was projected to be in the region of £600k, some £1.2m worse than the BAU position. The effect on the core budgets was far less significant with a worst-case decline of £48k mainly due to a reduction in Welcome Week, minibus, and other marketing income, partly offset by variable cost savings in other budgets.

### **Re-based Budget**

The results of the scenario analysis, and the continued uncertainty, indicated that there was a need to move to a more drastic approach in order to protect diminishing reserves and start building a more sustainable financial model for the future. A decision was therefore, approved at the F&R committee last month, to re-base the budgets based on the following rationale:

- No revenue from bars and catering for the full year ahead.
- 50% reduction in retail income with reduced student numbers, reduced footfall, and social distancing management for the duration of the academic year
- Remote working for core union staff for term 1
- Largely online Union services
- Online and limited in person offering from CSPs

This re-basing will also enable the Union to move to a more sustainable operating model whereby core services are fully funded by the block grant and other core income. It will also allow the development of more streamlined and agile commercial operating model which will be able to quickly react and adapt to the challenges and changes ahead.

### 3. 2020/21 Budget

The proposed budget for 2020/21 is detailed in the attached table below. Despite extensive scrutiny, the removal of all feasible variable costs, and a proposed £1.1m redundancy programme, we are still projecting a £200k deficit for the year. Although, undesirable, we believe that we have done everything we can, and no further improvement can be made at this time.

	<b>Proposed Budget 2020/21</b>	<b>Budget 2019/20</b>	<b>Change</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Income	2,511,101	5,770,903	(3,259,802)
Cost of Sales	(373,630)	(1,455,536)	1,081,906
<b>Net Income</b>	<b>2,137,471</b>	<b>4,315,367</b>	<b>(2,177,896)</b>
Staff Costs	(1,747,343)	(3,453,473)	1,706,130
Other Costs	(589,811)	(1,060,125)	470,314
<b>Total Expenditure</b>	<b>(2,337,153)</b>	<b>(4,513,598)</b>	<b>2,176,445</b>
<b>Net Surplus/(Deficit)</b>	<b>(199,683)</b>	<b>(198,231)</b>	<b>(1,452)</b>

This level of budget will effectively reduce unrestricted reserves to approximately £100k. During 2020/21, the budget will be monitored very carefully. Any savings identified will be used to reduce the deficit before any other spending plans are agreed. We will take advantages of opportunities to resume and scale up services where possible, safe, and viable. Where this is the case, we will reforecast in year to capture the new approach.

### 4. Budget Assumptions

The proposed budget is based on an extensive list of assumptions:

- a) Block grant of £1,885,213, consistent with 2019/20
- b) Non-recurring reduction in the CSP grant allocations of £150k of which £65k will come from the ADF.
- c) No income from bars & catering
- d) 50% of BAU income in retail
- e) No minibus income in Term 1
- f) No associate membership income in Term 1
- g) Reduced marketing income throughout the year
- h) No pay awards for any staff
- i) Extensive redundancy programme resulting in staff savings of £1.1m (as detailed in the Proposed Staffing Reorganisation paper)
- j) Redundancy costs provided for in 2019/20

- k) Staff identified for redundancy to continue on furlough until the end of the scheme on 31<sup>st</sup> October, including any pay in lieu period
- l) Non-recurring salary costs (net of furlough savings) of £115k for redundant posts
- m) Furlough savings of £46k for remaining furloughed staff
- n) Operations manager is retained at a cost of £65k to build the future commercial operating model
- o) Bars fixed costs of £7.5k
- p) Online Welcome Week considered to be cost neutral
- q) Online Welcome Fair considered to be cost neutral

## 5. Risk

The budget risk has been significantly reduced by the proposed staffing reorganisation, but an element of risk still exists. The two main risks are:

5.1 The budget assumes that retail will still be able to achieve 50% of their BAU income with a reduced staffing establishment. This level of income returns a £102k contribution. If this cannot be achieved, then the projected deficit will increase.

5.2 During the block grant submission, the Union requested one off capital investment of £320k from the College to address urgent capital and health and safety issues. It appears unlikely that the funding will be provided up front although there may be alternative ways of accessing the funding e.g. through maintenance or health and safety programmes. With the bars closed for the foreseeable future, some of the urgency has subsided, however, if suitable funds cannot be identified when needed, there may be cost pressures.

## 6. Recommendations

Board are asked to:

- Approve the proposed operating budget for the year ahead with the projected deficit of £200k.
- Agree the budget assumptions
- Accept that we are entering a year full of uncertainty which may alter some of the assumptions made

## 7. Conclusion

Budget setting always carries an element of risk as it is based on a set of assumptions agreed at a point in time, usually months ahead of the new financial year. This year, the exercise has been even more challenging due to the existing financial position and the worldwide pandemic. It is not clear yet what university life will look like in 2020/21 and beyond so the Union has created a new baseline budget which offers the flexibility to adapt whilst protecting the remaining reserves and managing risk.

During 2020/21, it is essential that the Union focuses on longer term financial planning in order to create a more sustainable financial future for the Union.