

**Imperial College Union
Board of Trustees / 28 October 2020**

2020/21 Final Budget (Stage Three)

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Purpose: This paper provides the context and overall architecture for the Union's budgeting process for 2020/2021. It outlines the key phases we have been through to date and presents the stage three 'final budget' for approval.

It has been discussed and approved at the most recent meeting of the Finance & Risk Committee.

Decision(s): To approve the stage three 'final budget' for the Union, subject to the half year reforecast and revised budget in February 2021.

1. Context

The uncertainty of the COVID-19 pandemic has required the annual budgeting process for the Union to be undertaken via a four-stage process. With the start of the undergraduate term now underway, and with social distancing restrictions now in place for at least the next six months, we are now in a position to move to stage three – a final budget for the organisation to drive our work for the first half of the academic year.

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 focussed within our permanent staff and commercial outlets.
Three	Final budget	Oct 2020	A final budget has now been produced based on the outcome of the staffing re organisation 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.

2. Stage One: Scenario Forecasting

Three scenarios were modelled out during May / June 2020 and were based on a range of factors including alignment with College thinking, wider sector expectations and government guidance. These were based on business as usual expenditure levels (with some adjustments made on the basis of variable costs), and with significant drops to income largely driven by expected reductions in our commercial operation. All three scenarios yielded significantly unsustainable deficits, clearly

demonstrating a need to take significant cost reduction actions, and to implement a change programme immediately in order to ensure our long-term financial viability.

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 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 and groups are able to take place as long as it is possible to do so in line with government guidance.

Forecasted deficit: c£900k

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 ongoing social distancing measures and safety protections i.e. limited numbers in venues etc.

Forecasted deficit: c£1.1m

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.

Forecasted deficit: c£1.3m

3. Stage Two: Interim Budget & Cost Reduction Plan

The Board therefore approved an interim budget in July based on a number of guiding principles and significant income and expenditure assumptions. These were as follows:

Surplus / Deficit Assumptions

- i. The cash position of the Union should be the most important factor to consider, and therefore a small operating surplus of c£45k should be targeted. Alongside a contingency in the budget, this would give the organisation some room to respond to unknown challenges in an extremely difficult operating environment.
- ii. No capital expenditure would be approved unless absolutely required under health and safety or other significantly serious grounds.
- iii. Historical depreciation would therefore be treated 'below the line'. A new capitalisation and depreciation policy would be required by the organisation, as the fixed asset register is currently significantly out of date and relatively unusable.

Income Assumptions

- i. The block grant would be £1,885,213, consistent with 2019/20. This would be subject to any pay award for staff as with previous years.
- ii. Retail would generate 50% of income compared to 2019/20 (a reduction of c£700k) but based on a significantly different trading pattern. This would reduce its net surplus contribution to our charitable expenditure of c£100k.
- iii. Bars would generate no income (a reduction of c£2.3m). If they were to open, due to social distancing requirements this would be little more than break even. Costs would be reduced where possible, but some fixed costs would be impossible to eliminate. This would result in a net surplus contribution to the charity expenditure of £0, down from c£520k.

- iv. Conferencing and external bookings would generate no income (a reduction of c£82k contribution to the charity expenditure), due to the reliance on large event bookings and other space restrictions.
- v. Advertising, sponsorship and other income generating activities such as minibus hire would be significantly curtailed (a reduction of c£200k).

Expenditure Assumptions

- i. An extensive staffing reorganisation and redundancy programme would result in salary savings of c£1.1m on a recurrent basis. Exceptional redundancy and residual salary costs for these staff would be covered by free reserves.
- ii. The furlough scheme would continue to be accessed until the end of October, saving the Union c£50k on permanent staff salaries for roles continuing in the revised structure.
- iii. Grants for clubs, societies and projects would be reduced in line with expected changes to activity levels, saving c£150k.
- iv. All non-pay expenditure would be reviewed, with a further £200k of savings realised from across the organisation.

Staffing Reorganisation

The major component of the cost reduction plan – the staffing reorganisation – was shaped by the following principles:

- i. Financial: a requirement to significantly reduce the overall salary bill for the entire organisation, in order to deliver a sustainable budget.
- ii. Commercial: a desire to significantly re profile our staffing model within our retail and bars, shifting away from permanent salaried staff towards a more flexible model that can better cope with the cyclical trading pattern. This includes an intention to provide more employment opportunities for students where possible.
- iii. Transformational: a desire to start the process of reshaping our charitable services staffing model, reducing expenditure in low impact areas and preparing for a major development programme on the basis of a new strategy in 2021.
- iv. Operational: a requirement to retain certain posts within core functions of the Union to ensure business as usual in key operational areas (such as our digital systems and finance teams).

The overall impact of the restructure on our permanent head count has been as follows:

	Before	After
Bars & Catering	18	1
Retail	10	5
Charitable Services (incl. sabbatical posts)	37	32
Total	65	38

4. Stage Three: Final Budget

With campus now partially reopen and our staffing reorganisation complete, we have undertaken a final budgeting process based on the following additional working assumptions. This also includes a clearer presentation of our budget that better reflects the operating structure of the organisation.

- i. Retail is open and trading at around 40% of last year now that term has started. This suggests our forecast is broadly accurate, although it will need to be monitored over the coming months.
- ii. Bar 568 is open and trading well – although variable costs are high in order to manage the venue safely and ensure social distancing. We have been cautious and only mapped out income until December. If the venue is required to close, we have the ability to ‘switch off’ most costs immediately (we have already factored in our fixed costs). It is highly probable we

will be able to reach the September – December income targets over the full 12-month period, particularly once we are through the winter period.

- iii. Reduced levels of activities are likely due to the government social distancing restrictions.

4.1 Budget Summary

The overall summary for the charity budget via income and cost centre is provided below. A full charity budget, and one for retail and bars, is included in the appendices. Some significant points to note include:

- i. The charity income budget has reduced by 24% year on year, reflecting the drop in the commercial contribution and other income generating activities.
- ii. The charity expenditure budget has reduced by 23%, reflecting the cost reduction exercise undertaken by the Union.
- iii. An operating surplus of c£30k has been targeted to provide capacity to deal with unexpected changes over the next 12 months.
- iv. A payroll contingency of c£150k has been included within the leadership and governance cost centre in order to mitigate the *known but extremely complex* variable impact of part-time furlough and staffing changes.
- v. A provision of c£60k is also made in a general contingency fund for further unbudgeted costs related to our COVID-19 response.

4.2 Summary Table

Charity	Budget 20/21 (£)	Budget 19/20 (£)	% Reduction
Income			
Block Grant	1,885,213	1,885,213	0%
Other Income	322,440	380,609	15%
Retail Contribution	102,849	221,907	54%
Venues Contribution	(34,153)	520,290	107%
Total Income	2,276,349	3,008,019	24%
Expenditure			
Education & Welfare	80,860	189,894	57%
Advice & Support	51,737	80,510	36%
Student Opportunities & Development	589,040	742,746	21%
Minibus Service	55,467	123,238	55%
Marketing & Communications	169,471	260,149	35%
Leadership & Governance	770,529	824,083	6%
Finance	171,491	214,777	20%
Systems	242,085	222,847	+9%
Central Services	113,228	250,774	55%
Total Expenditure	2,243,909	2,909,018	23%
Operating Surplus / Deficit	32,440	99,001	
Capital Expenditure	£0	£0	
Historical Depreciation	243,038	262,692	

Restructure Costs	161,860	£0	
Total Surplus / Deficit	(372,458)	(163,691)	

5. Key Risks

The most significant material risks to the budget are located within our income lines. Because we have taken such a risk averse approach to our bars, these have been identified as the following:

Risk	Amount	Commentary / Mitigation
Retail income	c£700k	We are open and currently trading somewhere between 70-80% of the forecasted income. However, this assumes the same trading 'pattern' as previous years which is unlikely. We are working to deliver the online shop in term one and will monitor the sales levels closely this first half of the year. There is a risk that local lockdown would trigger another closure of 'non-essential retail', but this now seems unlikely.
Minibus income	£50k	We are working on the assumption that groups will get some hire use from the minibuses, but not until the latter half of the year. We are also planning to look at asset sales to ensure we meet this target (reducing the number of minibuses we own and operate directly).

6. Balance Sheet & Free Reserves

The Union is forecasting no capital expenditure for the 2020/21 financial year, which means the likely impact of this budget on our free reserves is as follows. Since the last meeting of Finance & Risk Committee, we have now finalised the 2019/20 accounts:

Free Reserves at 31 July 2020 (current estimate)	c£451k
Operating Surplus	c£30k
Exceptional redundancy and reorganisation costs	c(£160k)
Expected Free Reserves 31 July 2021	c£321k

This leaves the Union in a solvent position and a going concern.

7. Sensitivity Analysis

Retail is open and the budget assumes a surplus contribution of £102,849. The early indications are positive - it is trading between 80-90% of target with campus only just reopening. However, it is possible that further social distancing restrictions may impact the operation over the coming year. Sensitivity analysis has therefore been undertaken to understand this potential impact on the Union's financial position.

Level of Trade	Contribution (£)	Variance (£)	Union Surplus / Deficit (£)	Free Reserves Position (£)
90%	73,016	(29,832)	2,608	c291k
80%	42,047	(60,802)	(28,362)	c261k
70%	11,077	(91,772)	(59,332)	c231k
60%	(19,893)	(122,742)	(90,302)	c200k
50%	(50,863)	(153,712)	(121,272)	c170k