

**Imperial College Union
Board of Trustees / 29 September 2021**

2020/21 Financial Outturn

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Purpose: To provide an update on the final year outturn of the 2020/21 budget.

Decision(s): For consideration only.

1. Context

Financial planning for 2020/21 was particularly difficult as a result of the pandemic and a significant number of changes within the organisation and the finance team. As a result, the Trustees decided a multi-stage approach to budgeting which saw the latest budget revision approved in February 2021. This paper provides an analysis of financial performance against this budget, based on the draft financial results as at 26 August 2021 (and subject to change throughout the audit process as explained below).

The full management accounts for July 2021 are included in Appendix One. All figures are draft until the year end accounts are audited and signed off.

2. Operating Performance

The operating surplus of the Union is a surplus of £154k, compared to a budget deficit of £18k. This improvement was expected through the latter part of the year as venues and retail reopened and the benefits of the Coronavirus Job Retention Scheme ('furlough') continued.

	Stage 4 Budget	Actual	Variance
Income	2,019,251	2,243,027	223,776
Operating Expenditure	(2,037,711)	(2,088,858)	(51,147)
Operating Surplus	(18,460)	154,169	172,629
Restructuring Cost	(153,200)	(167,639)	(14,439)
'Cash' Surplus	(171,660)	(13,470)	158,190
Depreciation	(226,000)	(1,164,149)	(938,149)
Total Deficit	(397,660)	(1,177,619)	(779,959)

This essentially means that whilst the Stage 4 budget had required the restructuring costs to be funded by the General Reserve, these have actually been covered by the in-year surplus and therefore we have not had to utilise reserves for this.

The main contributing factors to the operating surplus variance are shown below:

Operating surplus Variance	172,629
Retail Contribution	35,761
Venues Contribution	32,177
Additional external bookings	26,743
Additional furlough income	37,150
Release of bad debt provision	44,097
Saving on cleaning	29,515
CSP Grant under-allocation	18,550
Staff vacancy savings	<u>28,399</u>
	252,392
Unrealised gains on sale of minibuses	(9,830)
Historic balance sheet corrections	(44,258)
Net other	<u>(25,675)</u>
	<u>172,629</u>

The release of the bad debt provision is the impact of having collected a significant amount (c67%) of the debts that were old at the previous year end, a positive result of the sustained efforts of the finance team this year.

The historic balance sheet corrections relate to a number of invoices that were sat in a suspense account and not charged to individual budgets. It is likely that many of them will be funded by CSP underspends, however this is yet to be confirmed. The above position is therefore the worst case scenario.

3. Exceptional Items

In addition to the operating performance, there are a number of 'below the line' items that have an impact on the total deficit position as reported in the annual accounts. These items are:

Depreciation (old method)	(2,213)
Depreciation (adjustment to new method)	(935,936)
Restructuring Costs	<u>(14,439)</u>
Exceptional Item Variance	(952,588)

The majority of this relates to accelerated depreciation as a result of implementing the new capitalisation & depreciation policy, which was approved by the Finance & Risk Subcommittee in June 2021. This does not have a cash impact, and is funded by a designated reserve and therefore does not impact on the general reserve.

There is an additional accelerated depreciation charge of £2,057k which relates to the application of the new policy to items funded by specific capital grants. As with the that above, there is no cash or general reserve impact (the restricted capital grant fund and fixed asset balances are reduced).

4. Financial Accounts Position

As a result of the above, the financial accounts will present a significant deficit position. The draft accounts are currently presenting a £1,122k deficit on unrestricted funds, reconciled by:

Budget operating deficit	(18,460)
Budget exceptional items	(379,200)
Total budget deficit	<u>(397,660)</u>
Variance to operating budget	172,629
Variance to exceptional items	(952,588)
	<u>(1,177,619)</u>
Other accounting adjustments	55,233
Draft Accounts	(1,122,386)

The £55k relates to adjustments required to comply with the SORP, including reclassifications between restricted/unrestricted funds.

As a result of the above, there are two major changes to the balance sheet:

- i. The net book value of fixed assets is significantly reduced – as a result of us applying the new policy, the largest items on the fixed asset register (building redevelopments) have had their valuations reduced. Fixed asset values are classified as ‘accounting estimates’ and there is no ‘real world’ impact of this change (such as cash or general reserve).
- ii. The specific reserves that we held to fund the future depreciation have reduced in line with the above – in order to fund future depreciation of fixed assets, we hold specific funds within our reserves, these have been reduced to fund the accelerated depreciation and essentially offset the above. The remaining funds cover all of the future depreciation on remaining assets.

Appendix Two includes detailed extracts from the draft financial accounts showing the impact on fixed assets and reserves, but the most important impact of the 2020/21 financial performance is that the general/free reserve has increased from £387k at the start of the year to £495k.